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BEFORE THE ARIZONA CORPORATION

IN THE MATTER OF THE APPLICATION OF )  
ARIZONA WATER COMPANY, AN ARIZONA )  
CORPORATION, FOR A DETERMINATION OF ) DOCKET NO.  
THE FAIR VALUE OF ITS UTILITY PLANT ) W-01445A-08-0440  
AND PROPERTY, AND FOR ADJUSTMENTS TO )  
ITS RATES AND CHARGES FOR UTILITY )  
SERVICE AND FOR CERTAIN RELATED )  
APPROVALS BASED THEREON. )

At: Phoenix, Arizona  
Date: September 3, 2009  
Filed: **SEP 17 2009**

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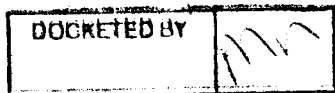
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Arizona Corporation Commission  
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By: COLETTE E. ROSS  
Certified Reporter  
Certificate No. 50658

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1 BE IT REMEMBERED that the above-entitled and  
2 numbered matter came on regularly to be heard before the  
3 Arizona Corporation Commission, in Hearing Room 1 of  
4 said Commission, 1200 West Washington Street, Phoenix,  
5 Arizona, commencing at 9:30 a.m. on the 3rd of  
6 September, 2009.

7  
8 BEFORE: KRISTIN K. MAYES, Chairman  
9 DWIGHT D. NODES, Assistant Chief  
Administrative Law Judge

10

11 APPEARANCES:

12

For the Arizona Corporation Commission:

13

14 Mr. Wesley Van Cleve and Ms. Ayesha Vohra  
15 Staff Attorneys, Legal Division  
1200 West Washington Street  
Phoenix, Arizona 85007-2927

16

For the Applicant:

17

18 FENNEMORE CRAIG, P.C.  
19 By Messrs. Norman D. James and Jay L. Shapiro  
3003 North Central Avenue, Suite 2600  
Phoenix, Arizona 85012-2913

20

For the Residential Utility Consumer Office:

21

22 Ms. Michelle L. Wood, Staff Counsel  
23 1110 West Washington, Suite 220  
Phoenix, Arizona 85007

24

25

1 APPEARANCES:

2 For Abbott Laboratories:

3 RYLEY, CARLOCK & APPLEWHITE, P.A.  
4 By Ms. Michele L. Van Quathem  
5 One North Central Avenue, Suite 1200  
6 Phoenix, Arizona 85004-4417

7 For the IBEW Local 387:

8 LUBIN & ENOCH, P.C.  
9 By Mr. Nicholas J. Enoch  
10 349 North Fourth Avenue  
11 Phoenix, Arizona 85003

12 COLETTE E. ROSS  
13 Certified Reporter  
14 Certificate No. 50658  
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1 ACALJ NODES: Any preliminary matters before we  
2 get started?

3 Mr. Shapiro.

4 MR. SHAPIRO: Yes, a couple, Judge Nodes. Thank  
5 you. Good morning.

6 First off, the project that we are doing in the  
7 consolidated rate design that Chairman Mayes requested  
8 is going to take a little bit longer than we originally  
9 anticipated, so it won't be ready tomorrow. I think  
10 Mr. Reiker thought he might be on the stand a few  
11 minutes and it took a little longer. But he is working  
12 on it and we will certainly have something next week in  
13 time for him to be called back, Lord forbid, to discuss  
14 it.

15 ACALJ NODES: Okay.

16 MR. SHAPIRO: Also, you had asked yesterday  
17 about the account numbers at issue in one of Staff's  
18 adjustments. Mr. Reiker pulled the NARUC information on  
19 that, and I am happy to mark that as an exhibit and put  
20 it in the record.

21 ACALJ NODES: Sure, that's fine.

22 MR. SHAPIRO: I am not sure what I am on,  
23 though.

24 MR. JAMES: 25.

25 MR. SHAPIRO: I will mark the uniform system of



1 accounts for Class A and B utilities document as  
2 Exhibit A-25, Your Honor.

3 ACALJ NODES: I think it is 24, actually.

4 MR. SHAPIRO: No.

5 MR. JAMES: No, actually --

6 ACALJ NODES: 24, what is 24? Oh, AWWA.

7 MR. JAMES: Which we didn't get to yesterday.

8 ACALJ NODES: Okay, got it. Thanks.

9 MR. SHAPIRO: Thank you, Your Honor. That's all  
10 we have.

11 ACALJ NODES: Okay. Anything else before we get  
12 started with Mr. Enoch's witness?

13 Ms. Wood.

14 MS. WOOD: Yes, just briefly. Mr. Moore, of  
15 course he can be accommodating, but tomorrow is actually  
16 a day off for him, and he was wondering if he could come  
17 up out of order before Mr. Coley. But I know that might  
18 disrupt everybody's equilibriums, but I wondered if that  
19 was possible or anyone had an objection.

20 MS. VAN QUATHEN: No objection.

21 ACALJ NODES: Anyone's equilibrium going to be  
22 upset with that?

23 MR. SHAPIRO: Yes, but that's okay. We will be  
24 prepared for Mr. Moore this afternoon if we get to RUCO.

25 MR. VAN CLEVE: That's fine, Your Honor.

1 ACALJ NODES: Actually, what we -- I am informed  
2 that Chairman Mayes I guess has some questions for  
3 Mr. Garfield. So what we may do, depending on these  
4 first couple of witnesses, we may end up starting  
5 Mr. Moore and hopefully finishing him at some point.  
6 But then, you know, if we -- because she is not going to  
7 be here, I guess, until like noontime or thereabouts.  
8 So just as a heads-up, it is possible we may get to  
9 Mr. Moore even this morning, but we will see how it  
10 goes.

11 MS. WOOD: Thank you, Your Honor.

12 ACALJ NODES: Okay. Mr. Enoch.

13 MR. ENOCH: Thank you, Judge Nodes. I would  
14 call Ed Junas.

15 ACALJ NODES: Does he have a copy of his  
16 testimony or you are going to pass it?

17 MR. ENOCH: We will pass it out.

18 ACALJ NODES: Pull the microphone, make sure the  
19 green light is on, and speak directly into the  
20 microphone.

21

22

23

24

25

1 EDWIN L. JUNAS, JR.,  
2 a witness herein, having been first duly sworn by the  
3 Certified Reporter to speak the truth and nothing but  
4 the truth, was examined and testified as follows:

5

6 DIRECT EXAMINATION

7 BY MR. ENOCH:

8 Q. Good morning, Mr. Junas.

9 A. Good morning.

10 Q. Can you state your name for the record, please.

11 A. Edwin L. Junas, Junior.

12 Q. And who are you employed by, Mr. Junas?

13 A. IBEW Local 387.

14 Q. What is your position?

15 A. Business representative.

16 Q. Is that an elected or appointed position?

17 A. Appointed.

18 Q. I am going to hand you, or the court reporter  
19 will hand you, three exhibits.

20 Mr. Junas, are you familiar with the documents  
21 that are marked as IBEW Exhibits 1, 2 and 3?

22 A. Yes.

23 Q. Were these exhibits prepared by you or under  
24 your direction and control?

25 A. Yes.

1 Q. Does the prefiled testimony represented in IBEW  
2 Exhibits 1, 2, and 3 represent your view of the matters  
3 discussed therein?

4 A. Yes.

5 Q. Do you have any additions, deletions, revisions  
6 or modifications to your prefiled testimony?

7 A. No.

8 Q. Would your prefiled testimony change if I were  
9 to ask you the same questions addressed therein?

10 A. No.

11 Q. Do you adopt your previously filed testimony?

12 A. Yes.

13 ACALJ NODES: Wait a minute, you said -- I think  
14 you said he asked you would your answers be the same  
15 today.

16 THE WITNESS: Yes, they will be the same.

17 ACALJ NODES: Okay. I think he said yes and  
18 there was just a little miscommunication.

19 MR. ENOCH: I apologize.

20 ACALJ NODES: Okay.

21 BY MR. ENOCH:

22 Q. So for present purposes, you would adopt your  
23 previously filed testimony?

24 A. Yes.

25 Q. Could you just briefly summarize IBEW

1 Local 387's position regarding the requested rate  
2 increase by Arizona Water.

3 A. Well, IBEW Local 387 does support the rate  
4 increase by Arizona Water Company. We do see that there  
5 is a need with a lot of the materials that are in  
6 service right now wearing out, needing to be replaced,  
7 and that's why we are in support of the rate case.

8 MR. ENOCH: At this point I would move for  
9 admission of the IBEW Exhibits 1, 2, and 3.

10 ACALJ NODES: Okay. Before I do that I just  
11 want to make sure that I have them marked correctly.  
12 IBEW-1 is the direct testimony filed on June 25th?

13 MR. ENOCH: Correct.

14 ACALJ NODES: IBEW-2 is the surrebuttal  
15 testimony filed to August 17th?

16 MR. ENOCH: Correct.

17 ACALJ NODES: And then IBEW-3 is the corrected  
18 pages from the surrebuttal testimony that was filed on  
19 August 26th?

20 MR. ENOCH: That's correct.

21 ACALJ NODES: Okay. Any objection to admission  
22 of those exhibits?

23 MR. SHAPIRO: No.

24 MS. WOOD: No.

25 ACALJ NODES: All right. IBEW-1 through 3 are

1 admitted.

2 (Exhibits Nos. IBEW-1, IBEW-2, and IBEW-3 were  
3 admitted into evidence.)

4 BY MR. ENOCH:

5 Q. I have just a few additional questions,  
6 Mr. Junas, for you before I turn you over to the other  
7 parties.

8 Without dwelling how we have gotten to this  
9 position where we are at, can you share with me the  
10 local's vision as to where the relationship between the  
11 employees of Arizona Water and the company and the union  
12 ought to move from this point forward for the purposes  
13 of providing safe and reliable service.

14 A. Yes. You know, what we envision is to have a  
15 joint partnership working with Arizona Water Company  
16 where we can have a joint committee working on safety as  
17 well as training and to where the field side as well as  
18 the company's side sits together and meets on safety  
19 issues that they see, and of course, the legal side with  
20 OSHA, which I am not as involved on that end, but work  
21 together to provide a safe workplace for the employees.  
22 And in the employees, you know, the way I see it, they  
23 are the eyes and ears of the company out there in the  
24 field. They see what is going on daily and they can  
25 bring back good ideas to the table.

1           As far as training, I do find it very valuable,  
2 IBEW does and other companies, with working together in  
3 joint training development companies. We do realize  
4 that, working with the company and the employees, that  
5 there is many different views that can come out on what  
6 the employee does daily with their job and what they see  
7 is a need for development.

8           And then there is also some things that are  
9 coming down the line like, and I am not as familiar with  
10 the arsenic development that has been going on, but the  
11 way things changed where you need your employees to get  
12 up to speed with other development off-site. And I just  
13 see that, working together, that we can provide a safe,  
14 skilled craftsman working for Arizona Water Company, and  
15 have the same goal to where we are working to make the  
16 company successful, Arizona Water Company, which just in  
17 turn gives our employees the same type of success.

18           You know, the employees that I have dealt with  
19 briefly with Arizona Water Company, there are some  
20 long-time employees from one end of the state to the  
21 other. They are very proud to work for Arizona Water  
22 Company, and they want to be the best they can. And  
23 that's where working safely, being the best, develop the  
24 best they can the skills that they provide the company  
25 means a lot to them. And being -- having a mutual

1 committee working together to where they feel part of it  
2 I think can really help the company be successful. So  
3 that's what I envision in the future.

4 Q. In addition to the safe and reliable service  
5 that the union envisions, do you also believe that the  
6 union and the employees that it represents can also  
7 provide useful feedback to the company when it comes to  
8 cost saving measures moving forward?

9 A. Yes, I do. I have met with various employees --  
10 and it has been after work hours, of course -- and they,  
11 being exposed to what takes place out in the field, they  
12 do have a lot of ideas. And they have a lot of the  
13 skills and experience that could bring something back to  
14 their area. And it might pertain to another area, too,  
15 the way everything is so intermixed. It seems like to  
16 help save us a buck, you know, and also to work, you  
17 know, with certain things that do come up on an  
18 incidental basis or daily basis, that making them part  
19 of it to where they can bring back their ideas and see  
20 them work I think would help the company as well as the  
21 customers, you know.

22 Q. Do you believe in your experience -- you work  
23 with other utilities, correct?

24 A. Yes.

25 Q. Do you in your experience with other utilities



1 out there have that sort of relationship with your  
2 local?

3 A. Yes.

4 Q. Okay. Who are they are?

5 A. Arizona Public Service, Navopache, and then  
6 Arizona Water Company is the other company I work with  
7 with the IBEW. And I see it being a huge success.

8 APS we have gone in many directions with, from  
9 work force change to a new committee that is being set  
10 up with the new VP there. And we are not making a big  
11 committee for a large company, for a bargaining unit,  
12 three performance reviews. And that's total generation.  
13 And they are going to be sitting down looking how do we  
14 make our primary skill employees more proficient at the  
15 job they perform daily, what else can they learn to help  
16 them do their job better.

17 And as far as safety committee, we have got a --  
18 and this is new generation wide, is that we have got a  
19 consistent safety program in place from plant to plant  
20 underneath the new VP to where everybody is getting the  
21 clear message at plant to plant, employee to employee,  
22 and on qualitative boards, clear safety messages and  
23 procedures being followed. So it has been successful  
24 there.

25 And being part of it does help relay the message

1 back to the employees at our unit meetings and also at  
2 other safety meetings we attend. It does show the  
3 support of, from our bargaining side, the IBEW 387, how  
4 much we value safe, skilled craftsmanship, expect us to  
5 be the best.

6 MR. ENOCH: I don't have any additional  
7 questions for Mr. Junas.

8 ACALJ NODES: Okay. Mr. Shapiro.

9

10 CROSS-EXAMINATION

11 BY MR. SHAPIRO:

12 Q. Good morning, Mr. Junas.

13 A. Good morning.

14 Q. Let me hand you what I am going to mark as  
15 Exhibit A-26. If you would turn to the third page of  
16 this exhibit, Mr. Junas.

17 A. Okay.

18 Q. In this letter written on August 28 to Judge  
19 Nodes, Mr. Enoch states on behalf of your union that he  
20 is notifying the Commission that the union supports in  
21 all material respects the company's pending application.  
22 Is that still the union's position as you sit here  
23 today?

24 A. Yes.

25 Q. Does the union believe the company's request is

1 in the public interest?

2 A. Yes.

3 MR. SHAPIRO: Thank you, sir.

4 I will move for the admission of A-25 and A-26.

5 ACALJ NODES: Any objection to 25 or 26?

6 (No response.)

7 ACALJ NODES: All right. Those exhibits are  
8 admitted.

9 (Exhibits Nos. A-25 and A-26 were admitted into  
10 evidence.)

11 Ms. Van Quathem.

12 MS. VAN QUATHEN: No questions, Your Honor.

13 ACALJ NODES: Ms. Wood.

14

15 CROSS-EXAMINATION

16 BY MS. WOOD:

17 Q. Good morning, Mr. Junas.

18 A. Good morning.

19 Q. The employees who work that are union employees,  
20 are you familiar the manner in which they are paid,  
21 salary versus hourly?

22 A. With the bargaining unit they are paid hourly.

23 Q. Okay. And in keeping track of their hourly  
24 time, do they have to do time sheets?

25 A. Yes. They turn, if I remember correctly, a

1 supplemental time sheet to their leader. I think that's  
2 what it is called.

3 Q. Okay. And so they would have to do that  
4 regardless of what else goes on in this case because  
5 that's what is required in the collective bargaining  
6 agreement?

7 A. That form may be more of a company policy on  
8 time card keeping. That's not part of the collective  
9 bargaining agreement on how the document you are timed  
10 is turned in. A lot of companies use different time  
11 sheets.

12 Q. But the bulk of the employees work on an hourly  
13 basis and have to record their hourly work?

14 A. We have about 100 bargaining unit employees  
15 working for Arizona Water Company, and I am not sure how  
16 many PR, performance reviews, we have.

17 Q. What does the performance review mean?

18 A. Bargaining is covered by our labor agreement,  
19 performance and review is management.

20 Q. For those people covered by a collective  
21 bargaining agreement, they work hourly?

22 A. Yes.

23 Q. Okay. And if the company's application is  
24 approved as submitted, it would result in a greater  
25 amount of income available to the company to cover

1 operating and maintenance expenses. Are you expecting  
2 the members of IBEW will then be able to ask for greater  
3 concessions that are favorable to them, salary  
4 increases, changes in insurance that will benefit them,  
5 is that what your intention is to do?

6 A. Well, we are going to be -- we have requested  
7 already -- we negotiate yearly with Arizona Water  
8 Company, and we have already put in a request to start  
9 negotiations. And yes, wages are usually an item that  
10 we put in for negotiations.

11 MS. WOOD: Okay. Thank you.

12 ACALJ NODES: Ms. Vohra.

13 MS. VOHRA: Thank you, Your Honor.

14

15 CROSS-EXAMINATION

16 BY MS. VOHRA:

17 Q. Good morning, Mr. Junas.

18 A. Good morning.

19 Q. I just have a few quick questions for you.

20 Are you suggesting at all in your prefiled  
21 testimony or here today that Arizona Water Company does  
22 not currently provide a safe working environment for its  
23 employees represented by IBEW?

24 A. No.

25 Q. Okay. And is it your understanding that the

1 Corporation Commission Staff is also recommending a rate  
2 increase for the company in this matter?

3 A. Could you repeat that, please.

4 Q. Sure. Is it your understanding that the Arizona  
5 Corporation Commission Staff is also recommending a rate  
6 increase in this matter?

7 A. You know, I really don't even know that.

8 MS. VOHRA: Okay. That's fine.

9 That's all the questions I have, Your Honor.

10 ACALJ NODES: Redirect?

11 MR. ENOCH: I don't have any.

12 ACALJ NODES: All right. Mr. Junas, thank you  
13 for your testimony. And you are excused.

14 THE WITNESS: Okay. Thank you.

15 ACALJ NODES: Ms. Van Quathem.

16 MS. VAN QUATHEM: Yes, Your Honor. I would like  
17 to call Dan Neidlinger to the stand, please.

18 ACALJ NODES: Go ahead.

19

20

21

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25

1 DANIEL NEIDLINGER,  
2 a witness herein, having been first duly sworn by the  
3 Certified Reporter to speak the truth and nothing but  
4 the truth, was examined and testified as follows:

5

6 DIRECT EXAMINATION

7 BY MS. VAN QUATHEN:

8 Q. Can you please state your full name for the  
9 record.

10 A. My name is Daniel Neidlinger.

11 Q. And by whom are you employed?

12 A. I am employed by Neidlinger & Associates.

13 Q. And what is your work address?

14 A. Work address is 3020 North 17th Drive, Phoenix,  
15 Arizona.

16 Q. And what is your position at your company?

17 A. I am president of the company.

18 Q. Do you have an exhibit marked Abbott 2 in front  
19 of you?

20 A. Right now I find a lot of IBEW exhibits. Oh,  
21 here it is. Thank you. Yes, I do.

22 Q. And can you identify that for the record,  
23 please.

24 A. Exhibit 2 is a copy of my prefiled surrebuttal  
25 testimony.

1 Q. And was this testimony prepared by you or at  
2 your direction?

3 A. Yes, it was.

4 Q. Do you have any changes to the testimony?

5 A. No, I don't.

6 Q. Can you please look now at the exhibit marked  
7 Abbott-3.

8 A. Yes. I have it.

9 Q. And that is a notice of errata filed in this  
10 case. And is that your background information,  
11 Mr. Neidlinger?

12 A. It is. It is a summary statement of my  
13 qualifications.

14 MS. VAN QUATHEM: Your Honor -- excuse me.

15 BY MS. VAN QUATHEM:

16 Q. Mr. Neidlinger, if I asked you the same  
17 questions today that were posed in the testimony in  
18 Abbott Exhibit No. 2, would your answers today be the  
19 same as are in that exhibit?

20 A. They would.

21 MS. VAN QUATHEM: Your Honor, at this time I  
22 would like to move for admission of Exhibit Abbott-2 and  
23 Abbott-3.

24 ACALJ NODES: Any objection?

25 (No response.)



1 ACALJ NODES: All right, Abbott-2 and 3 are  
2 admitted.

3 (Exhibits Nos. Abbott-2 and Abbott-3 were  
4 admitted into evidence.)

5 BY MS. VAN QUATHEN:

6 Q. Mr. Neidlinger, what subjects do you address in  
7 your written testimony?

8 A. My testimony addresses cost of service and rate  
9 design issues.

10 Q. Okay. And would you mind giving everybody a  
11 short summary of your testimony.

12 A. Yes. And I think to put my testimony in  
13 context, I looked at the filing and I looked at the  
14 Staff's proposals, and I have to say that -- I would say  
15 that the imbalance in rates as it relates to the Casa  
16 Grande system is probably the largest imbalance of any  
17 water company that I have ever experienced in my many  
18 years in this business. And there is a reason for that.  
19 And the reason is obviously these large industrial  
20 customers, namely Abbott and Frito-Lay.

21 To put the size of these customers in  
22 perspective, I did a calculation of the average usage of  
23 all of the six-inch commercial and industrial customers  
24 system-wide. Abbott and Frito-Lay's average consumption  
25 is 36 times the average monthly consumption of these

1 customers, to repeat, 36 times. These are very large  
2 water users that, from a ratemaking standpoint, need  
3 special treatment. And the Staff, in my view, hasn't  
4 addressed the unique characteristics of these customers.

5 For instance, the Staff proposed an average rate  
6 for residential of \$1.60 a thousand gallons, some 80  
7 cents per thousand gallons less than the proposed rate  
8 for Abbott and Frito-Lay of \$2.41. This, frankly, if  
9 you wanted to relate it to our electric utilities, this  
10 is akin to charging the large power customers of Arizona  
11 Public Service and Tucson Electric 20 cents a kilowatt  
12 hour. They are currently paying 7. If we took the same  
13 ratemaking logic that Staff has applied in this case and  
14 applied it to our electric utilities, the large users  
15 would be paying 20 cents a kilowatt hour instead of 7  
16 cents a kilowatt hour.

17 Q. So that's almost three times as much?

18 A. That's correct. So on its face, the Staff  
19 proposal I find to be unreasonable.

20 I might then turn to, if you would look at the  
21 last exhibit appended to my testimony, Exhibit DLN-2,  
22 what comes to mind when you look at Staff's proposed  
23 rate structure in this case? Well, the first word might  
24 be exorbitant, obviously. Look at the 90 percent return  
25 on industrial. But another word comes to mind in my

1 view, and that's attrition with a capital A.

2           If you look at this proposed rate structure, it  
3 says to me that every new residential customer the  
4 company hooks up, we lose money. So if I were a person  
5 wanting to acquire this system with this rate structure,  
6 I would look at the schedule and I would say well, this  
7 is very attractive, I see we are getting a handsome  
8 return off of industrial customers and a good return off  
9 of commercial, but, by the way, I don't want to add any  
10 more residential customers to this system. And then you  
11 tell them wait a minute, this is a regulated utility.  
12 Well, I guess I will have to pass on this company. I  
13 don't want to acquire this business on that basis.

14           So in my view, the proposed rate structure that  
15 Staff has, DOA. Now, that may be music to the ears of  
16 Mr. James and Mr. Shapiro, because that means that they  
17 will be busy filing another rate application shortly.  
18 But it certainly isn't music to the ears of  
19 Mr. Garfield, nor to Staff, for that matter, who is  
20 already up to their ears with rate applications.

21           So in summary, it is time to deal aggressively  
22 with this problem, not perpetuate the subsidies that are  
23 shown in present rates.

24       Q.     And Mr. Neidlinger, isn't it true, though, that  
25 the company's proposal also includes subsidies for other

1 users?

2 A. Includes what?

3 Q. Subsidies that the industrial customers and  
4 commercial customers are paying?

5 A. Yes. Their proposals still maintain what I  
6 would view as excessive subsidies by the industrial  
7 clients. But at least their rate proposals get the  
8 residential class up close to a range of reasonableness  
9 in terms of rate of return.

10 Remember, we talk about stability in revenues  
11 and rate design. Nobody talks about stability in  
12 earnings. Very important. And in my experience, unless  
13 you get the residential class of any utility up to  
14 80 percent of average return, you are wasting your time  
15 putting in new rates, because you know you are going to  
16 be back very shortly to adjust rates again. You can't  
17 achieve your return objectives with an average rate of  
18 return on residential of 50 percent of what are already  
19 returns. It is not going to happen.

20 MS. VAN QUATHEN: Thank you, Mr. Neidlinger.

21 I would offer Mr. Neidlinger for  
22 cross-examination.

23 ACALJ NODES: All right. Mr. James or  
24 Mr. Shapiro.

25 MR. JAMES: Let me rearrange this so I speak

1 into it.

2 ACALJ NODES: Okay, very well.

3

4 CROSS-EXAMINATION

5 BY MR. JAMES:

6 Q. Mr. Neidlinger, just to follow up on a couple of  
7 points that you raised. In going back to your  
8 Exhibit DLN-2, I just want to make sure it is clear for  
9 the record, what exactly -- you have got on the  
10 right-hand side of that table, you have got return on  
11 rate base. Are these figures based on the  
12 recommendation of the Utilities Division Staff in this  
13 case?

14 A. Yes, the revenues are. The costing is based  
15 upon Mr. Reiker's amended cost of service study.

16 Q. Okay. And that's the, that would be the cost of  
17 service study that was attached to Mr. Reiker's rebuttal  
18 testimony?

19 A. Correct.

20 Q. Okay. So you took the water revenues proposed  
21 by Staff which are shown in the three columns in the  
22 middle of Exhibit DLN-2 and then used the cost -- the  
23 revised cost of service study to compute the return on  
24 rate base at present rates and at proposed rates?

25 A. Correct.

1 Q. Okay. I assume based on your testimony that you  
2 believe that rates should be based on the cost of  
3 service?

4 A. Yes.

5 Q. Now, there are times when other policy reasons  
6 require some deviation from setting rates on a pure cost  
7 of service basis, is that correct?

8 A. That's correct. There are other considerations  
9 as I point out in my testimony. But ultimately, cost of  
10 service trumps all of those other considerations.

11 Q. Would you agree with me that first and foremost  
12 the rate design should ensure that the utility is able  
13 to actually recover through rates its revenue  
14 requirement and have a reasonable opportunity to  
15 actually earn its authorized rate of return on rate  
16 base?

17 A. Yes, absolutely. As I previously pointed out in  
18 my introduction, the proposed rates, the rate structure  
19 proposed by Staff ensures that that will not happen.

20 MR. JAMES: Your Honor, I would like to mark an  
21 exhibit.

22 ACALJ NODES: All right.

23 MR. JAMES: I think we are on A-26, is that --

24 ACALJ NODES: '7.

25 MR. JAMES: 27, sorry.

1 BY MR. JAMES:

2 Q. Now, what I have handed out and marked as  
3 Exhibit A-27, just for the record, as you will see in  
4 the upper right-hand corner, Mr. Neidlinger, it says  
5 exhibit schedule A-5, page 273 of 1260, witness Reiker.  
6 Do you see that, sir?

7 A. Yes, I do.

8 MR. JAMES: And what I have done here, Judge  
9 Nodes, is these are two pages actually taken from the  
10 company's bill count, which is so large it is literally  
11 marked as a box. So I thought as convenience I would  
12 simply copy two pages out of it rather than having to go  
13 through a box, if that's okay.

14 ACALJ NODES: Okay.

15 MR. JAMES: This has already been admitted in  
16 the sense it is part of our direct schedules.

17 ACALJ NODES: Right. Just for identification I  
18 think you said A-5, and H-5 --

19 MR. JAMES: I am sorry, Your Honor. This is  
20 part of our bill count, schedule H-5, and it is attached  
21 to our direct filing.

22 ACALJ NODES: Right.

23 MR. JAMES: Okay. I apologize.

24 BY MR. JAMES:

25 Q. Now, Mr. Neidlinger, do you recall the breakover

1 point -- well, let me back up a step.

2 Under the Staff rate design, there are two rate  
3 tiers or blocks that have been proposed, is that right?

4 A. That's correct.

5 Q. In contrast to the company and RUCO's proposals,  
6 which use a single or uniform rate for service to  
7 industrial customers, correct?

8 A. Correct.

9 Q. Now, do you recall the breakover point that  
10 Staff has selected for the six-inch meter industrial  
11 customers in Casa Grande?

12 A. Yes.

13 Q. And what is that breakover point?

14 A. It is the wrong one. It is 950,000 gallons. It  
15 should be 27 million gallons.

16 Q. Well, and that goes to Exhibit A-27. I don't  
17 know whether -- did you have a chance to look at this,  
18 at the bill count? I know it is massive, given we have  
19 got 17 different systems, but did you look at that?

20 A. Which bill count?

21 Q. The bill count for the Casa Grande industrial  
22 customers.

23 A. No, I didn't.

24 Q. So the document you are looking at you hadn't  
25 seen before?



1 A. I may have seen it, but I am familiar with the  
2 totals, let's put it that way.

3 Q. Okay. And if you look on the bottom left-hand  
4 side of the second page of what has been marked as  
5 Exhibit A-27 it indicates, and I know the printing is  
6 very small on this, but if you look at line 53, what  
7 does that indicate as the average gallons per bill for  
8 this particular customer group?

9 A. 23,801,550 gallons.

10 Q. And if you go down two more lines to line 55,  
11 what does the median usage indicate?

12 A. It is slightly less at 23,330,000.

13 Q. And then you testified that the breakover point  
14 used by Staff is what again?

15 A. 950,000 gallons, which is approximately  
16 4 percent of this amount.

17 Q. So based on either average or median usage for  
18 this customer group, approximately 96 percent of the  
19 usage would be in the upper rate tier?

20 A. Yes, that's correct.

21 Q. And being charged at the higher rate?

22 A. Yes. The tiering, regardless of whether you  
23 think a tiered rate is appropriate or not for the  
24 six-inch meter, the proposed tiering by the Staff is way  
25 off. It is off by many millions of gallons.

1 Q. If you were to design -- well, let me back up a  
2 step again.

3 As you are probably aware, Mr. Neidlinger, the  
4 Commission has been emphasizing the use of conservation  
5 oriented rates now for probably, I don't know, eight or  
6 ten years. Is that your understanding?

7 A. Correct.

8 Q. And have gone increasingly to this type of rate  
9 design generally that have inverted blocks' usage at  
10 higher levels priced at a higher amount than would be  
11 the case with usage at lower levels?

12 A. Correct.

13 Q. When you design an inverted tier rate structure  
14 like this, what are you normally attempting to do?

15 A. What you are normally attempting is to reflect  
16 what one might consider to be nonessential or wasteful  
17 usage levels when looking at break points.

18 In other words, you don't want to punish people  
19 for using water efficiently, which the Staff's proposed  
20 rate design in this case would do. You want to set the  
21 higher blocks at levels that people would consider for  
22 that particular size meter to be excessive.

23 Q. Okay. And that would typically involve, and I  
24 realize this is going to vary depending upon the  
25 particular circumstances of the customer class, but that

1 would generally involve what, the upper 10 percent or  
2 5 percent of usage in that particular customer class,  
3 something?

4 A. Yes, it would be at the end of the bell curve,  
5 if you would, the distribution of usage. The Staff, for  
6 instance -- to give you a for instance -- the Staff had  
7 selected for residential five-eighths inch meters, I  
8 think the top tier break, at 113 percent of average use  
9 for residential customers. Well, that may be  
10 reasonable, may not, I don't know. But it is certainly  
11 perhaps within the ballpark of reasonableness in terms  
12 of selecting the break point for the top tier.

13 If you apply the 113 percent to the average  
14 usage to the six-inch meter customers, you end up with a  
15 number significantly higher than 950,000 gallons.

16 Q. Okay. Well, if average usage as we just  
17 discussed is around, what, 23 million gallons per bill,  
18 then presumably the break point would be set slightly  
19 above that then, something like 25 or 27 million  
20 gallons?

21 A. That's correct. My calculation shows average  
22 usage a little bit higher than this bill count, at about  
23 25 million gallons.

24 Q. Okay. Do you believe that a uniform rate can  
25 provide an appropriate conservation oriented price

1 signal?

2 A. I think in this case it does not, certainly.

3 Q. Well, a uniform rate charge, I should have  
4 explained that.

5 A. Yes.

6 Q. Charging the same amount regardless of the level  
7 of usage, would that, does that --

8 A. You mean a flat rate?

9 Q. Yes, I apologize.

10 A. I think for these two customers, their flat rate  
11 is appropriate. I think there is testimony presented by  
12 Mr. Chasse yesterday of the conservation efforts,  
13 regardless whether it is flat or inverted. I don't --  
14 frankly, if the Staff wants to present an inverted rate  
15 for six-inch meters, and design it correctly and design  
16 it correctly at the right overall level of revenues, I  
17 don't have a problem with that. But that isn't what the  
18 Staff has proposed in this case.

19 Q. So I take it from what you have just said, then,  
20 an inverted rate design can still be based on cost of  
21 service principles?

22 A. Of course.

23 Q. And again applying cost of service principles,  
24 even with an inverted tier rate design, the number one  
25 priority is to ensure that the company has a reasonable

1 opportunity to actually recover sufficient revenues to  
2 earn the rate of return that has been authorized?

3 A. Yes, and to design the rate to produce not the  
4 excessive level of revenues that the Staff proposal  
5 produces, but to produce a level of revenues at or near  
6 what the company has recommended in this case, or what  
7 RUCO has recommended in this case.

8 Q. And that's on the basis, you are talking now on  
9 the basis, when you said excessive revenues, you are  
10 talking now about the six-inch industrial class in Casa  
11 Grande --

12 A. I am.

13 Q. -- not the company's overall application?

14 A. No. I am talking about the six-inch customers  
15 in Casa Grande.

16 Q. All right. I just wanted to make sure that was  
17 clear for the record.

18 ACALJ NODES: So, did you say you are supportive  
19 of the level of revenues RUCO recommends?

20 THE WITNESS: I am supportive of their rate  
21 design which produces revenues for that six-inch class  
22 of customers at or near the current level of rates.  
23 That's what I am supportive of.

24 ACALJ NODES: Okay. Only the --

25 THE WITNESS: I am not talking about overall

1 revenue requirements.

2 ACALJ NODES: Only the rate design.

3 THE WITNESS: -- rate design, exactly.

4 ACALJ NODES: You didn't do a revenue  
5 requirement calculation?

6 THE WITNESS: I have no opinion on revenue  
7 requirement.

8 ACALJ NODES: Okay, go ahead, Mr. James.

9 BY MR. JAMES:

10 Q. If inverted tier rates are utilized for the  
11 first time, let's say you had a system that previously  
12 was on a flat rate where there was a monthly minimum  
13 charge, the standard rate design monthly minimum charge  
14 plus an additional commodity rate that was a flat rate,  
15 so much per thousand gallons of usage each month, okay,  
16 suppose that you were moving from that rate design to an  
17 inverted tier rate design where the commodity rates were  
18 inverted to charge more at different higher levels,  
19 higher levels of usage, would you expect to see  
20 reductions in water use under that rate design?

21 A. Well, if it was designed correctly, yes, you  
22 would expect to see customers react, yes.

23 MR. JAMES: I think that's all I have.

24 Oh, Your Honor, I would like to move for the  
25 admission of Exhibit, what is this, A-27.

1 ACALJ NODES: Any objection?

2 (No response.)

3 ACALJ NODES: A-27 is admitted.

4 (Exhibit No. A-27 was admitted into evidence.)

5 ACALJ NODES: Thank you for that additional

6 direct examination, Mr. James.

7 Ms. Wood.

8

9 CROSS-EXAMINATION

10 BY MS. WOOD:

11 Q. How do you pronounce your last name, sir?

12 A. Neidlinger.

13 Q. Neidlinger?

14 A. Deutsche.

15 Q. Okay. Mr. Neidlinger, I think you clarified my  
16 first question, which is, you don't object to RUCO's  
17 rate design and consolidation model as it relates to the  
18 six-inch meter Casa Grande design?

19 A. No. But to be clear, is that the rate design  
20 appended to Mr. Moore's surrebuttal testimony?

21 Q. Yes, sir.

22 A. I have no objection to that.

23 Q. And the company supports that rate design?

24 A. I think that Mr. Moore has properly reflected  
25 cost of service concerns in his proposed rates.

1 Q. Thank you.

2 The other question I had is yesterday Mr. Chasse  
3 indicated that the company has exerted some conservation  
4 efforts and that they have reduced their water  
5 consumption per production unit. And I think he said  
6 indexed to 2004. Is that correct?

7 A. Yes.

8 Q. Okay. Does that necessarily translate into a  
9 reduction in actual water usage?

10 A. No. It depends on the levels of production,  
11 obviously.

12 Q. Now, he indicated production volume had  
13 increased.

14 A. Yes. You can still have a reduction in unit  
15 water costs, and because you are producing more product  
16 you could have a slight increase in total water usage.

17 Q. And do you know whether or not the company has  
18 experienced an increase in total water usage?

19 A. I think -- I listened to Mr. Chasse. He said  
20 the water usage had gone up somewhat because production  
21 had gone up. And it would be my prediction that if  
22 Staff rates are adopted in this case, and the people  
23 that are assigning productions around the country,  
24 production will go down.

25 Q. Now, if RUCO's rate design and consolidation



1 model was adopted, do you have that same prediction or a  
2 different prediction?

3 A. Well, no. I think, again, RUCO is trying to  
4 look at the results of the cost of service study and do  
5 some major efforts here to get this rate structure back  
6 to something that looks reasonable and in balance.

7 And frankly, I reviewed briefly the prior case,  
8 and unfortunately there was no cost of service study in  
9 the prior case, which was a big mistake. And there has  
10 been a large, large attrition in the return from the  
11 residential class from '04 to through '07. And I think  
12 as I mentioned before, the company is going to  
13 experience exactly that same result with this proposed  
14 rate structure.

15 ACALJ NODES: You said residential class  
16 attrition?

17 THE WITNESS: Yes.

18 ACALJ NODES: What about industrial class  
19 attrition?

20 THE WITNESS: Industrial class has stayed the  
21 same.

22 ACALJ NODES: Okay.

23 MS. WOOD: All righty. Thank you very much,  
24 Mr. Neidlinger.

25 ACALJ NODES: Mr. Van Cleve.

1 MR. VAN CLEVE: Thank you, Your Honor.

2

3

CROSS-EXAMINATION

4 BY MR. VAN CLEVE:

5 Q. To start out, Mr. Neidlinger, I did want to  
6 clarify, you are here on behalf of Abbott Labs --

7 A. I am.

8 Q. -- is that correct?

9 And so your testimony here is on behalf of  
10 Abbott Labs, correct?

11 A. That's correct.

12 Q. Okay. And I did want to ask, is it your opinion  
13 that cost of service is the sole factor or determinant  
14 in rate design?

15 A. No. It is the most important, but not the sole  
16 factor.

17 Q. Okay.

18 A. I so state in my testimony.

19 Q. And also, to the best of your knowledge, is  
20 Abbott Labs the only industrial customer that is in,  
21 well, in this case, in the Casa Grande system?

22 A. Oh, no. No, there are a variety of industrial  
23 customers. The two major -- there are only two major  
24 customers on the six-inch meter class, and that's Abbott  
25 and Frito-Lay.

1 Q. And is it your understanding that both the rate  
2 design that the company is proposing and that RUCO is  
3 proposing does not make a distinction between meter  
4 size, but just customer class?

5 A. No, no. It is a meter-based rate design.

6 Q. But is the rate that is for the industrial class  
7 the same regardless of what the meter size is?

8 A. I don't think it is the same.

9 Q. Okay.

10 A. But again, Mr. Van Cleve, this isn't a vanilla  
11 type six-inch meter customer, a typical customer you  
12 would find if you looked at other water systems around  
13 the state.

14 Now, the Staff's rate design may be very  
15 important for a typical six-inch customer on XYZ water  
16 system, may be, may be appropriate. A million gallons a  
17 month customer, that's reasonable for a six-inch  
18 customer, but not a customer that's using 25, 30 million  
19 gallons a month.

20 Q. Are you aware that there are industrial  
21 customers in the Casa Grande system that are on the  
22 five-eighths inch meter that are in the industrial  
23 class?

24 A. Yes.

25 Q. And from what you were just saying, are you

1 indicating that that rate design may be appropriate for  
2 that customer class?

3 A. Yes, it may be.

4 Q. Okay. So is it --

5 A. Remember, the water system costs, the meter  
6 doesn't know whether it is serving a residential  
7 customer, a ballpark, a commercial customer. All it  
8 knows it has a particular configuration of how much  
9 water can it deliver per unit of time, and a related  
10 cost to the delivery of that water through that size  
11 meter. So it doesn't really care whether I am a  
12 residential customer or whether I am a commercial  
13 customer. The cost is the same.

14 Q. And I believe you make a distinction between  
15 Abbott Labs, and I think the other large customer that  
16 has been talked about is Frito-Lay, is that correct?

17 A. Yes.

18 Q. And that they are, because of the large volume  
19 of water that they use, different from other industrial  
20 customers that may be within the Arizona Water system?

21 A. Yes. As a matter of fact, they are not only the  
22 two -- they are the two largest retail potable water  
23 customers I think I have ever encountered except maybe  
24 in a muni system. I am talking about investor-owned  
25 utilities.

1           To give you an example, I have a government  
2 customer served by California American Water Company in  
3 Monterey, the Presidio Monterey, a huge complex, houses  
4 the Army language center, huge, huge complex. Their  
5 total annual consumption is only 60 million gallons  
6 annually. Well, that's two months usage for Abbott  
7 Labs.

8       Q.     Now, are any of the -- is the company and/or  
9 RUCO proposing any sort of, or did you propose any sort  
10 of a special rate design specific to the six-inch  
11 industrial class of industrial customers?

12       A.     No, I haven't. I have adopted basically the  
13 recommendations of the company and RUCO in this case. I  
14 think they are reasonable.

15       Q.     Do you think that it would be appropriate, based  
16 on what you said, to have some sort of a special rate or  
17 design specific to the large industrial customer class  
18 on the six-inch meter?

19       A.     Oh, it is. It is.

20       Q.     And now turning to your surrebuttal testimony,  
21 on page 2 you mention -- and correct me if I am wrong,  
22 let me know when you get there -- but you indicate that  
23 you were in general in agreement with the class rate  
24 adjustments proposed by the company through its witness,  
25 Mr. Reiker, since they move rates closer to a cost of

1 service. Is that accurate or a fair characterization?

2 A. Yes.

3 Q. And you are still in agreement with that here  
4 today?

5 A. Yes, I am.

6 Q. Now, if I could have you turn -- and this is,  
7 you will have to dig this one out, but I think it is  
8 under Exhibit A-21, Exhibit JMR-RBEX2 of the company's,  
9 Mr. Reiker's, rebuttal testimony. It should be up there  
10 somewhere.

11 A. Mr. Reiker's rebuttal testimony?

12 MR. SHAPIRO: Just the rebuttal?

13 MR. VAN CLEVE: Rate design rebuttal.

14 MR. SHAPIRO: A-1.

15 THE WITNESS: I still have Mr. Enoch's exhibits.

16 MR. SHAPIRO: If it is faster, Your Honor, I  
17 have got a copy.

18 ACALJ NODES: Go ahead.

19 THE WITNESS: Mr. Reiker worked long hours, it  
20 seems.

21 BY MR. VAN CLEVE:

22 Q. And in particular, this is the -- I am not sure  
23 which page of which it is, but it is referring to the  
24 Casa Grande system, the industrial class.

25 ACALJ NODES: Well, that's going to be like

1 finding a needle in a haystack.

2 MR. VAN CLEVE: The reason I say that, I have  
3 one page here saying it is page 20 of 28. In the actual  
4 testimony, it shows it being page 20 of 40. So I think  
5 it is 20 of 40.

6 ACALJ NODES: 20 of 40?

7 MR. VAN CLEVE: Of his Exhibit RBEX2 that's  
8 attached to his rate design.

9 MR. JAMES: Does it have a schedule number?

10 MR. VAN CLEVE: H-3.

11 MR. JAMES: H-3?

12 MR. VAN CLEVE: Yes.

13 THE WITNESS: 20 of 44?

14 MR. VAN CLEVE: 20 of 40 is what I have.

15 THE WITNESS: I have it.

16 BY MR. VAN CLEVE:

17 Q. And under the industrial class --

18 A. Yes.

19 Q. -- specifically regarding industrial six-inch  
20 and the industrial eight-inch, do you see those numbers  
21 there? One looks like it is 366, \$366.80?

22 A. Yes.

23 Q. And also for the eight-inch industrial, do you  
24 see that it is also \$366.80?

25 A. Yes.

1 Q. Do you think it is appropriate that the, I guess  
2 the six-inch industrial class or meter have the same  
3 basic service charge as an eight-inch?

4 A. No.

5 Q. That's all I have for that exhibit. If I could  
6 have you turn, this is back in your testimony now.

7 A. Mr. Van Cleve, are we going back to this  
8 document again?

9 Q. No. I think we are done with that one.

10 And in your testimony, and I think it is an  
11 attachment to your testimony, there is a graph -- I  
12 think it is Exhibit 2 to your surrebuttal testimony --  
13 that shows, I guess, the Staff's percent of increase for  
14 the various customer classes specific to Casa Grande.  
15 Do you see that document?

16 A. Yes.

17 Q. Okay. I was wondering if, did you do a similar  
18 document as it relates to what the company is proposing  
19 in this case?

20 A. No. The company, Mr. Reiker has already filed  
21 that document.

22 Q. Okay. Subject to check, would you agree that  
23 the company -- and this is referring to the commercial  
24 class customers -- is proposing a 55.3 percent increase  
25 or a 17.51 percent rate of return on rate base for its



1 commercial customers?

2 A. I would have to take a look at that.

3 Q. Okay. Is there a document you could look at?

4 A. Yes. Well, I guess we are back to Mr. Reiker's.

5 Q. I am sorry about that.

6 A. Let me check my files. I may have it also.

7 Q. Okay.

8 A. Yes. I am looking at Exhibit JMR-RBEX2,  
9 schedule RBG-2, page 13 of 22, witness Reiker, which  
10 shows that the company's increase for commercial is  
11 52.6 percent. Is that the number you are referring to?

12 Q. That sounds about right.

13 A. Okay.

14 Q. Okay. Do you agree that that is fairly close to  
15 what Staff is actually proposing for an increase based  
16 on the chart that you have attached to your --

17 A. Yes. And they both appear to be somewhat  
18 excessive, especially the 52 percent is excessive.

19 Q. Okay. So, I mean, is that an indicator that the  
20 company didn't follow its cost of service study in its  
21 proposed rates?

22 A. No, I don't think so. I think the  
23 company -- the company certainly has the proposed  
24 residential index up closer to approximately .7. It is  
25 not at the 80 percent level that I consider the lower.

1 But it did look at the cost of service study. It looked  
2 at industrial and said we can't afford to increase their  
3 rates any more.

4 Q. But as it relates to the commercial class?

5 A. As it relates to the commercial class, it  
6 appears to be a little bit high, yes.

7 Q. Which would that be indicative of them not  
8 following the cost of service as it relates to  
9 commercial class?

10 A. Well, again, you can't do a one for one. All  
11 you can do, you start out with the cost of service study  
12 as your objective --

13 Q. Okay.

14 A. -- and that's the principle you follow. You  
15 find in reality that certainly larger meter sizes, which  
16 typically would go to the commercial type customers,  
17 provide for rates of return that are higher than overall  
18 average returns. You typically find that they might be  
19 in the neighborhood of two to three times the overall  
20 average rate of return, which they are in this case at  
21 the proposed rates.

22 But Abbott, we would gladly accept a two to  
23 three times average rate of return for its revenue  
24 requirement in this case. We would accept that today.  
25 Just get the documents out. We will sign it.

1 Q. So based on what you just said, is it fair to  
2 say that cost of service is not the only thing that you  
3 look at in designing rates?

4 A. It is not the only thing, but it is the most  
5 important thing.

6 Q. Okay. And is it fair to say that your  
7 testimony, and correct me if I am wrong, doesn't address  
8 the consolidation aspect of this case?

9 A. That's correct.

10 Q. Okay. Would you agree that consolidation in one  
11 form or another may change the dynamics of cost of  
12 service?

13 A. It may. It depends on which systems are being  
14 consolidated.

15 Q. And I think it is on page 2 of your surrebuttal,  
16 you list the number of factors that go into, I think it  
17 is, rate design. Is that a fair characterization?

18 A. That's correct.

19 Q. Do some of the other factors besides cost of  
20 service become more important or at least looked at more  
21 when you are proposing some sort of consolidation?

22 A. I guess I don't understand your --

23 Q. Well, for instance, simplicity, stability of  
24 rates, simplicity of billing, administration are things  
25 like that are looked at when --

1 A. Well, I would certainly agree that there is  
2 probably some economies to consolidation from an  
3 administrative standpoint. That's a consideration, of  
4 course.

5 Q. And again, is it correct to say that both RUCO  
6 and the company are proposing a flat industrial rate?

7 A. Yes.

8 Q. And does Abbott oppose a tiered rate in general,  
9 or just as it has been proposed in this case so far?

10 A. I think I have answered that question earlier by  
11 a question by Mr. James. I have no quarrel with the  
12 tiered rate for Abbott, if it is correctly designed and  
13 it produces overall revenues at the level recommended by  
14 the company or RUCO for six-inch meter customers.

15 Q. And are you aware that in general there has been  
16 a trend towards tiered rates in Arizona?

17 A. Oh, there has been for a number of years.

18 Q. If I could have you turn, hopefully it is up  
19 there, to Exhibit S-9 that was entered.

20 Do you have that document in front of you?

21 A. Yes, I do.

22 Q. And I understand that you only evaluated, or it  
23 sounds like you only looked at this, this case in the  
24 Casa Grande system. That first page of S-9 is for the  
25 San Manuel system. Do you see that?

1 A. Yes.

2 Q. And looking at column A of that first page,  
3 first at the residential class, do you see the  
4 multipliers that are listed there?

5 A. Yes, I do.

6 Q. And then looking at the commercial class and the  
7 multipliers that are listed in that category, do you see  
8 those?

9 A. Yes.

10 Q. And then finally, the multipliers in the  
11 industrial class, do you see those?

12 A. Yes, I do.

13 Q. And are the multipliers identical throughout  
14 those customer classes in this?

15 A. Yes, they are identical for the same meter size,  
16 that's correct.

17 Q. And then if I could have you turn to the second  
18 page of that document, and this one, for the record,  
19 refers to the Casa Grande system, correct?

20 A. Yes.

21 Q. And looking at that same column for the  
22 residential class first, do you see those numbers?

23 A. Yes, I do.

24 Q. And then for the commercial class, do you see  
25 the multipliers listed in column A for that class?

1 A. Yes.

2 Q. And then finally, under the industrial class for  
3 the multiplier, do you see those numbers?

4 A. Yes.

5 Q. Do you agree that the numbers that are listed in  
6 particular for the six-inch and eight-inch meters as the  
7 multiplier is different than what is listed for those  
8 same meter sizes for the commercial and residential  
9 classes?

10 A. Yes. And as we earlier discussed, it appears to  
11 me the eight-inch meter basic service charge should  
12 logically be higher than the charge for the six-inch  
13 meter.

14 Q. And then on the third page, this is for the  
15 Bisbee system. Again realizing that you are here on  
16 behalf of Abbott Labs for the Casa Grande system, but  
17 looking at the column J, do you see that column?

18 A. Yes.

19 Q. What -- and there is some descriptions, it looks  
20 like, that are for the tier 2 and for both the  
21 industrial and the commercial -- or residential and  
22 commercial classes. In your experience, what does it  
23 mean when it has the term that says out of limit?

24 A. I don't know. You will have to ask Mr. Reiker  
25 what that means.

1 Q. Were you here or did you listen in on the  
2 testimony that was given by Mr. Reiker on behalf of the  
3 company yesterday?

4 A. I listened to some of Mr. Reiker's testimony,  
5 yes.

6 Q. Okay. Would you agree with Mr. Reiker, that it  
7 is okay to set breakover points so that at some volume  
8 level a customer with a smaller meter would receive a  
9 larger bill than a customer with a larger bill -- larger  
10 meter, excuse me?

11 A. I don't understand your question.

12 Q. Well, let me read it back one more time.

13 Do you believe that it is okay to set breakover  
14 points for rate design in such a fashion that one meter  
15 size is subsidizing another meter size?

16 A. Again, I think you would have to give a little  
17 more flesh to your illustration before I could deal with  
18 it.

19 MR. VAN CLEVE: I have no further questions,  
20 Your Honor.

21 ACALJ NODES: Thank you.

22

23 EXAMINATION

24 BY ACALJ NODES:

25 Q. Mr. Neidlinger, would you agree that, similar to

1 estimating cost of equity, that rate design is more or  
2 as much an art as a science, in the sense that there is  
3 a great deal of judgment that comes into play in both of  
4 those types of calculations?

5 A. I would say there is much less judgment involved  
6 in rate design than there is in determining cost of  
7 equity. I think there is some judgment involved. I  
8 think one has to have some experience in the area in  
9 both cost of equity as well.

10 But rate design has a lot more hard facts that  
11 one can deal with, and you can touch it and feel it, and  
12 it is tough to touch and feel a DCF formula, frankly.

13 Q. Well, cost of capital witnesses may disagree.

14 Let me ask you. Do you think it is appropriate  
15 for the Commission, and other parties for that matter,  
16 to take into consideration in setting rates the economic  
17 climate that exists both nationally and locally and the  
18 potential detrimental impact of increasing rates,  
19 especially for residential customers?

20 A. Well, the Commission is going to consider a lot  
21 of factors, obviously. And the Commission is going to  
22 do what they are going to do. I would only caution the  
23 Commission that a lot of these factors are not readily  
24 measurable, and they must consider that there is an  
25 economic impact on all the customers, not just the



1 residential customers.

2 As I previously pointed out, I don't know  
3 exactly how this rate structure got in the condition  
4 that it is today, but it is my opinion that it is DOA,  
5 and Mr. Shapiro and Mr. James would be very busy the  
6 minute these rates hit the street getting ready for the  
7 next rate application.

8 Q. Just because of the rate design for the Casa  
9 Grande system?

10 A. Well, I would say if you looked at just the Casa  
11 Grande system, that would be the result. I haven't -- I  
12 can't make that conclusion on the rate recommendations  
13 of Staff for the rest of the systems. I didn't look at  
14 that.

15 Q. Why do you come to that conclusion? Is it, what  
16 you are saying is, if Staff's rate design were to be  
17 adopted, that the impact on Abbott Labs and Frito-Lay  
18 alone will cause such an attrition of revenues to the  
19 company that it will immediately have to refile a new  
20 rate case involving the entire 17 systems?

21 A. No, no, that's not my testimony.

22 Q. Okay. Then could you clarify.

23 A. Yes. I am saying if you looked at the Casa  
24 Grande system on an isolated basis, if the Commission  
25 believes that it is -- the company should be entitled to

1 make a return of, let's say, 8 percent, that it has been  
2 my experience that unless the residential class, be it  
3 the Casa Grande system or XYZ electric utility or gas  
4 utility, unless you can get the residential class up to  
5 a return at proposed rates of 80 percent of the overall  
6 return, that in all likelihood the company will never  
7 achieve that rate of return.

8           The company is going to lose money with every  
9 new residential customer who hooks up in Casa Grande  
10 because they are only getting a 4 and a half percent  
11 rate of return, and the cost of capital is 8 and a  
12 half percent. So you are losing money every time you  
13 hook up a residential customer.

14       Q.     So is it your testimony that even given current  
15 economic conditions, with unemployment rates  
16 significantly higher than they have been in decades,  
17 foreclosure rates at all time highs, especially in the  
18 outlying areas where Arizona Water tends to serve  
19 customers, that the Commission should be aggressively  
20 moving the residential class closer to cost of service  
21 in order to allow industrial customers to pay less as  
22 part of an overall class?

23       A.     No, no, that isn't. What I am suggesting is  
24 that the residential class should bear a greater  
25 percentage burden of the increase, for the reasons I

1 previously stated, than the industrial class. The  
2 industrial class is already at usurious rates of  
3 50 percent return on rate base, headed to 90 percent.  
4 What is it going to be in the next case, 130 percent?  
5 Where does this stop? It is my view you have got to  
6 stop it now.

7 Q. Well, I am not sure that answers the question.  
8 The question is: Should the Commission not take into  
9 account at all what the impact is for residential  
10 customers, given the current economic climate and the  
11 already significantly burdened impact of various other  
12 factors?

13 A. Well, I am sure the Commission will consider all  
14 kinds of factors, as it normally does. I can't give  
15 them any advice as to what those factors should be or  
16 how they should consider them, other than my particular  
17 area of expertise and cost of service and rate design.

18 Admitted, I will agree with you that there are  
19 other considerations. I agreed with Mr. Van Cleve there  
20 are other considerations. The Commission has to weigh  
21 those factors in arriving at a decision. But I can't  
22 give you an opinion as to how, what factors they should  
23 weigh or how they should be weighed.

24 Q. But some consideration should be given, do you  
25 believe?

1       A.       I am sure they will consider it, and probably  
2       should consider the economic impact, not only  
3       residential customers, but on commercial customers and  
4       industrial customers. All of the customers deserve  
5       attention.

6               ACALJ NODES: I had another question and now I  
7       can't think of it.

8               Okay. Ms. Van Quathem, do you have any  
9       redirect?

10              MS. VAN QUATHEM: Your Honor, I have an  
11       inclination to ask him to define the term DOA. But  
12       that's really my only question.

13              ACALJ NODES: Yes.

14              MS. VAN QUATHEM: He used it several times and  
15       we didn't give a definition.

16              THE WITNESS: That's a new utility acronym.

17              ACALJ NODES: I assume he means dead on arrival.

18              THE WITNESS: That's correct.

19              MS. VAN QUATHEM: That would be my only  
20       redirect.

21              ACALJ NODES: Right, okay.

22              MR. JAMES: Judge Nodes, could I ask one  
23       question to clarify something? I think the record is  
24       going to be a little bit confused.

25              ACALJ NODES: Okay.

1 MR. JAMES: This is not direct again.

2 ACALJ NODES: That's okay. I was just kidding.

3 Go ahead.

4

5 FURTHER CROSS-EXAMINATION

6 BY MR. JAMES:

7 Q. Mr. Neidlinger, you were asked several questions  
8 by RUCO's attorney and she referred to do you agree with  
9 or do you accept RUCO's rate design and consolidation  
10 model. Do you know what RUCO's consolidation model is?

11 A. No.

12 Q. Okay. So when you answered --

13 A. I predicated my answer based upon Mr. Moore's  
14 rebuttal schedule, and she concurred that that's what it  
15 means. So...

16 Q. Well, another issue in this case, sir, that you  
17 haven't looked at is whether and how all or parts of the  
18 company's 17 systems should be consolidated. Now, you  
19 didn't look at that particular issue?

20 A. No.

21 Q. So when you responded, you were referring to  
22 RUCO's rate design and how RUCO was allocating costs  
23 between customer classes in Casa Grande?

24 A. Correct.

25 MR. JAMES: Okay. Thank you.

1 ACALJ NODES: All right. Ms. Wood.

2

3 FURTHER CROSS-EXAMINATION

4 BY MS. WOOD:

5 Q. Just simply to clarify that further, and that  
6 was based on the rate design that you reviewed in  
7 Mr. Moore's surrebuttal, which is RUCO's consolidation  
8 rate design?

9 A. Let me refer to a specific schedule appended to  
10 Mr. Moore's surrebuttal testimony to make sure that we  
11 are clear. It is the Casa Grande system schedule RDM-1,  
12 page 51 through 55. And it is page 53, which is a rate  
13 design approved for recommended revenues for industrial  
14 customers.

15 MS. WOOD: Thank you, Mr. Neidlinger.

16 ACALJ NODES: Mr. Van Cleve, do you have any  
17 additional questions?

18 MR. VAN CLEVE: No, Your Honor.

19 ACALJ NODES: I think I remembered my other  
20 question now.

21

22 FURTHER EXAMINATION

23 BY ACALJ NODES:

24 Q. Would you agree that the Casa Grande system in  
25 this case is unique in the sense that you get -- you are

1 getting some skewed cost of service and rate of return  
2 results because there is such a wide gap between the two  
3 industrial users you have talked about, Abbott Labs and  
4 Frito-Lay, compared to any other customer that exists on  
5 the system?

6 A. Yes. If I understand your question, you do get  
7 skewed results, especially if you charge these extremely  
8 large users the rates that are currently being charged,  
9 because a lot of money falls to the bottom line at that  
10 level of usage. And no question about it, the customer  
11 profile is atypical.

12 Q. Okay. And your argument essentially is, given  
13 that disparity in the size of the customers or the usage  
14 of those large industrials, that a special recognition  
15 and rate design treatment should be afforded those  
16 customers, and that Staff's rate design perhaps was  
17 attempting to treat those customers more as average  
18 industrial customers and that resulted in an unfair  
19 treatment for those very large customers?

20 A. That's absolutely correct, Judge. And as a  
21 matter of fact, again back to my analogy on the electric  
22 side, if you look at an E-34 APS customer versus a  
23 residential customer or an LLP 14 customer in Texas  
24 versus a resident, you find this huge disparity in  
25 consumption patterns. And you typically do not find

1 that in your average water company, average  
2 investor-owned water company in Arizona.

3 So I would concur that, because of this anomaly,  
4 if you will, in usage, the Staff proposed a rate that  
5 would be perhaps just fine for an average six-inch meter  
6 using a million gallons a month.

7 Q. So a company like Abbott Labs in particular  
8 perhaps should -- is almost like a special contracts  
9 customer that might exist on an electric or gas system?

10 A. That was my initial reaction, why don't you have  
11 a contract. So, that should have been done some time  
12 ago, a special contract, you are absolutely right, and  
13 with a rider that exempts them from arsenic charges  
14 since they receive nonpotable water. That's a separate  
15 issue we haven't addressed.

16 ACALJ NODES: Okay. Well, I am sure Mr. Chasse  
17 will be in touch with you when it is time to negotiate a  
18 contract.

19 Mr. James, anything further?

20 MR. JAMES: No, Your Honor.

21 ACALJ NODES: Ms. Wood?

22 MS. WOOD: Nothing further.

23 ACALJ NODES: Mr. Van Cleve.

24 MR. VAN CLEVE: Just one question.

25



1 FURTHER CROSS-EXAMINATION

2 BY MR. VAN CLEVE:

3 Q. I think this is a follow-up to what Ms. Wood had  
4 asked, or Mr. James, regarding the consolidation and  
5 whether you took that into account in your analysis of  
6 rate design. And I think -- and correct me if I am  
7 wrong -- you indicated you had not looked at RUCO's  
8 consolidation model in looking at the rate design, is  
9 that correct?

10 A. I looked at the schedule, Mr. Moore's schedule.  
11 I referenced and I liked the rate I saw on that  
12 schedule.

13 Q. And I guess the follow-up question to that is,  
14 is it fair to say that you did not look at Staff's  
15 consolidation model either in making your analysis and  
16 determinations in your testimony, prefiled testimony,  
17 and your testimony on the stand?

18 A. I think I did look at both consolidated and  
19 unconsolidated, and they were similar.

20 Q. Okay. And are you aware that the Casa Grande,  
21 the Coolidge, and the Stanfield systems, Staff is  
22 proposing to consolidate those three systems in this  
23 case?

24 A. Yes.

25 MR. VAN CLEVE: No further questions, Your

1 Honor.

2 ACALJ NODES: Ms. Van Quathem, anything further?

3 MS. VAN QUATHEM: I am finished, Your Honor.

4 ACALJ NODES: Okay. Mr. Neidlinger, thank you  
5 for your testimony. You are excused.

6 THE WITNESS: Thank you.

7 ACALJ NODES: All right. We are going to take a  
8 10-minute break, and then we will return with  
9 Mr. Schneider, if that's okay, and then we will see  
10 where we are after he finishes.

11 (A recess ensued from 10:54 a.m. to 11:09 a.m.)

12 ACALJ NODES: Let's get started again.

13 Mr. Shapiro, you are calling Mr. Schneider back  
14 to the stand, correct?

15 MR. SHAPIRO: Yes. Mr. Schneider is going to  
16 address issues related to Staff's inspections that came  
17 up during other witnesses' testimony, and we will call  
18 him now rather than at the end of trial. We may call  
19 him at the end of trial, but we will try not to.

20 ACALJ NODES: Okay. Mr. Schneider, I remind you  
21 you are still under oath from previous. Okay. And make  
22 sure you pull the microphone and speak directly into it.

23 THE WITNESS: And slowly as well.

24 ACALJ NODES: Okay, yes, slowly, clearly,  
25 loudly.

1 Mr. Shapiro, go ahead.

2 MR. SHAPIRO: Thank you.

3

4 FREDERICK SCHNEIDER,  
5 recalled as a witness herein, having been previously  
6 duly sworn by the Certified Reporter to speak the truth  
7 and nothing but the truth, was examined and testified  
8 further as follows:

9

10 DIRECT EXAMINATION

11 BY MR. SHAPIRO:

12 Q. Good morning, Mr. Schneider.

13 A. Good morning.

14 Q. There was some testimony yesterday regarding  
15 plant inspections that were conducted by Staff engineer  
16 Ms. Stukov. Were you here during that testimony?

17 A. Yes, I was.

18 Q. Were you involved on behalf of the company in  
19 Staff's inspections?

20 A. Yes, I was. As I had stated previously when I  
21 was up, I was around, I participated and actually led  
22 the majority of all those inspections, but there were a  
23 few that I did miss.

24 Q. What was, what was -- can you describe the scope  
25 of Staff's inspection of the company's plant.

1       A.       Very thoroughly. What we would do is put  
2 together a map that listed all the locations within a  
3 system that we were going to go visit. We number them  
4 or letter them A through Z or 1 through a number. And  
5 then we would have a separate list by site of all the  
6 facilities that were located within that parcel of land  
7 or that site we were going to visit, i.e. electrical  
8 panel, chlorinator, well, treatment plant, storage tank  
9 and the like.

10               And then we would walk around that site in  
11 detail and check off each item on that list as we walked  
12 around, and verify that facility was there and also was  
13 in service, or if it was not in service, we verify it  
14 was not.

15       Q.       And was this done on a system-by-system basis, a  
16 group-by-group basis, an ADEQ numbering basis? I mean,  
17 how did you divide the company's facilities for purposes  
18 of, you and Staff, divide up the company's facilities  
19 for purposes of these inspections?

20       A.       Ms. Stukov and I would directly go through the  
21 system. What we did is we did them by group first and  
22 then we would actually delve into each by each, system  
23 by system separately.

24               So we actually bid the northern division first,  
25 and we started out in Forest Town in October of 2008.

1 And we went through those divisions. We then went  
2 through the eastern division. And we ended up in the  
3 western division, ending right around February 10th or  
4 so. So it was a fairly lengthy process.

5 Q. Let me hand you a couple of exhibits,  
6 Mr. Schneider. I will hand you Exhibit A-28 and  
7 Exhibit A-29.

8 (Brief pause.)

9 BY MR. SHAPIRO:

10 Q. I have handed you what has been marked as  
11 Exhibits A-28 and A-29, Mr. Schneider. Are these the  
12 plant description lists and the map that you described  
13 or are these illustrative of those documents?

14 A. Yes. I believe these are exact copies of the  
15 information we sent over to Staff prior to visiting the  
16 sites.

17 Q. So then for which of the company's systems is  
18 this for?

19 A. This one here in particular is for the Casa  
20 Grande system and also for the Tierra Grande system.

21 Q. And was the information that was prepared for  
22 all the other systems the same, obviously just system  
23 specific information?

24 A. That is true, with the exception of the first  
25 couple sites we visited. And I believe Forest Town,

1 Overgaard, and Lakeside did not have this level of  
2 detail on the map. We had not had those prepared yet.  
3 They actually were not requested yet and we had not  
4 prepared this. And right around that time we started  
5 preparing the maps. As you have here I had on the  
6 visits for Staff.

7 Q. So as the process went on, Staff and the company  
8 were able to improve the information that was being  
9 prepared for Staff?

10 A. Yes.

11 Q. And the information prepared was the same in all  
12 the subsequent circumstances generally as far as the  
13 content of the information, the type of information  
14 Staff was provided?

15 A. That would be correct.

16 MR. SHAPIRO: I will move Exhibit A-28 and A-29  
17 before I forget.

18 ACALJ NODES: Any objection to these exhibits?

19 (No response.)

20 ACALJ NODES: Okay, A-28 and 29 are admitted.

21 (Exhibits Nos. A-28 and A-29 were admitted into  
22 evidence.)

23 BY MR. SHAPIRO:

24 Q. Using this Exhibit A-28 and A-29, Mr. Schneider,  
25 can you provide the specific information that Staff was

1 provided by the company for each plant item.

2 A. Yes. What we would do -- might be easier to  
3 kind of describe what we would do when we arrive on a  
4 site --

5 Q. Okay.

6 A. -- if I could.

7 What we would do, we would leave it to the  
8 manager of the division to kind of lay out the round --  
9 kind of the order of the sites we would visit.

10 So as an example, we would pick a site to go  
11 visit, and in this case use Cottonwood Well 14 as an  
12 example. We would go and visit that site. Typically  
13 the first thing we would do is -- flip to the third  
14 page. That would be the Casa Grande inventory of major  
15 plant in service. And we would basically, when we  
16 arrived, Staff would go up to the site and they would  
17 take pictures of all the signage that was on that site,  
18 i.e. the PWSID ID number, the POE, or the point of  
19 entry, number for the system, as well as any naming  
20 conventions we had for the site, Cottonwood Lane,  
21 arsenic site, or Well No. 14 or whatever it may be. She  
22 would take pictures of those first before we actually  
23 entered the site to begin our visit.

24 We would then basically go around the site  
25 somewhat in a circle. So using Cottonwood Lane, Well

1 Site No. 14 as an example, which would be the fourth  
2 item on this list, we would look at the arsenic plant,  
3 which is the first item, and then we would walk through  
4 the plant, effluent, where the vessels are, what the  
5 treatment process was, treatment method, kind of talk  
6 generally about influent arsenic levels, effluent  
7 arsenic levels, and proceed around the plant. And as we  
8 would go, we would check off each one of these items  
9 listed here as we confirmed that we had seen them.

10 Then when we reached the end of the site, we  
11 would confirm that we had seen everything we listed on  
12 the site, or if there was something missing, that was  
13 not on the list or something on the list that was not  
14 there, we would then agree scratch it off, check it off.

15 When we were done, we would actually flip back  
16 to the very first page. So as an example, we would go  
17 to Well No. 14, and she would ask us is that the correct  
18 DWR number. We would say yes, that's the number that  
19 was on the fence. Is that the correct horsepower? If  
20 you notice on the previous sheet, it says 40 horsepower.  
21 We verify it was a 40 horsepower pump, verify what the  
22 yield is, the depth is, casing diameter and meter size.  
23 And typically she would take a picture of the meter as  
24 well for verification that that well is metered and in  
25 service.



1           So typically this is the last sheet we would go  
2 through before we left and went on to the next site.

3       Q.     On page 3 of the Exhibit A-28 with respect to  
4 the Cottonwood well site, Well 14 lists there is an  
5 arsenic treatment facility associated with the well?

6       A.     That is correct.

7       Q.     As well as some significant storage?

8       A.     Yes. But it would be fair to point out the  
9 arsenic treatment plant treats multiple wells, which we  
10 noted on that very first sheet. But that was one of the  
11 wells that would go to the arsenic plant, yes.

12      Q.     Okay. Do you have S-5 up there?

13      A.     Briefly, I don't remember seeing it.

14           No, no S-5.

15      Q.     I think Mr. James will lend you his copy.

16      A.     Yes, I have it.

17      Q.     This was an exhibit that Staff turned in  
18 yesterday, introduced yesterday. Have you seen this  
19 document before?

20      A.     I saw it yesterday.

21      Q.     Okay. Something went wrong with respect to what  
22 had been referred to as Cottonwood Lane Well 14 or Casa  
23 Grande Well 14, right?

24      A.     Yes, yes.

25      Q.     Why don't you describe what happened during the

1 inspection or shortly thereafter that would be  
2 considered an error, a mistake, or problem,  
3 Mr. Schneider.

4 A. While we were on the site, this is an example of  
5 the picture Staff would take. It shows, as I described,  
6 the PWSID number, POE number, the name of the site, and  
7 the DWR number.

8 And we also went through all the sites and made  
9 sure that DWR number on the sign matched the -- we put  
10 the label on the well to match the DWR number up. So  
11 what we did is the sign that was made up historically  
12 for this well site incorrectly listed the DWR number as  
13 613443. And you will notice on the very first sheet of  
14 Exhibit A-28 it also lists the identical DWR number by  
15 mistake. It was entirely the company's error. That  
16 number should have been correctly reflected as 616598.

17 But regardless of that, you know, the number on  
18 that well is incorrect, no doubt. And the correct  
19 number should have been that 598 number.

20 Q. Is there anything in the picture of the well in  
21 S-5 that would demonstrate its active use?

22 A. It has got the piping hooked up to it. I can  
23 see it is a submersible pump. So the pump and motor is  
24 actually down in the hole. And you can see the electric  
25 conduit coming over to power it. And my guess is the

1 very subsequent picture to the one on the bottom of S-5  
2 would most likely be the picture of the meter that goes  
3 to that well, which is typically what you take, if you  
4 took a picture of the well, you would take a picture the  
5 meter itself.

6 Q. So those things wouldn't be associated with the  
7 well that was not in service?

8 A. No. Typically if a well was out of service we  
9 would have capped it pretty much around where the flange  
10 comes out and the white pipe in essence bolts to the  
11 black pipe. There would be a cap right on there to  
12 deliver service.

13 Q. So you went out there, took pictures, and at the  
14 time I assume nobody knew the well had the wrong number?

15 A. No. At the point in time we visited the site I  
16 was not aware, nor was anybody that worked for me aware,  
17 that we had the incorrect number listed on the sign of  
18 the site.

19 Q. And according to the picture this is, S-5, is  
20 January of '09?

21 A. Yes, January 26 of 2009.

22 Q. When did you become aware that there was a  
23 problem with the number, the well number for Cottonwood  
24 Lane Well No. 14?

25 A. Actually Staff made an inquiry to us as to the

1 discrepancy in the DWR number. And on our  
2 investigation, I want to say sometime in the early  
3 May -- I would have to check an exhibit -- we then  
4 verified the number was wrong and confirmed that with  
5 Staff.

6 Q. And how did you confirm that?

7 A. Joel and I actually worked on some, a written  
8 description of the correct -- the wrong number, the  
9 correct number. And I believe we sent, I believe Joel  
10 sent Staff an e-mail clarifying that error. And I  
11 believe it was included in one of his exhibits.

12 Q. Just for identification, let me hand you a copy  
13 of Mr. Reiker's Exhibit JMR-RJ3, which is already in  
14 evidence as part of his testimony.

15 Is that a copy of the information that the  
16 company provided to Staff in May of 2009 regarding the  
17 correction of the well number?

18 A. Yes, it is.

19 Q. And can you just describe generally what  
20 information the company provided Staff at that time.

21 A. What we did is we provided them kind of a  
22 description of, you know, that the correct number for  
23 Well No. 14, which we visited, was the ending number in  
24 598 and is currently in service, that the 443 is an  
25 agricultural well which does not belong to the company,

1 and included some documentation showing the well that we  
2 owned that is in service as well as the well that we do  
3 not own.

4 Q. And what is the information regarding the well  
5 that you own in service? Does it provide information  
6 showing that it had been in use pumping, or anything  
7 like that?

8 A. I believe we had provided information, looking  
9 at here, of what the production numbers, volumes had  
10 been historically. I see here we provided information  
11 through 2003 from DWR's website showing the volumes of  
12 water pumped.

13 Q. From 2003 forward -- or back to 2000?

14 A. From 2008 through 2003 is what we had pulled up.

15 Q. Oh, okay. Does this information indicate,  
16 again, the activity of the well?

17 A. Yes, just showing that we had reported the  
18 pumping from that well with current records from DWR's  
19 website, as well as the appropriate documentation  
20 verifying, as Staff determined, that No. 443 was not  
21 AWC's well.

22 Q. Whose well is this well, 613443?

23 A. It belongs to Aztec Land & Cattle Company.

24 Q. Okay. Let me hand you what has been marked as  
25 Exhibit A-30. Mr. Schneider, does this Exhibit A-30

1 depict the location of the Aztec Land & Cattle well?

2 A. Yes, it does.

3 MR. SHAPIRO: Your Honor, if I can have a  
4 second, I think I may have given him one with a markup  
5 of notes.

6 THE WITNESS: Yes.

7 BY MR. SHAPIRO:

8 Q. Let me also hand you what we will mark as  
9 Exhibit A-31, which is another map.

10 Okay. So you said A-30 shows the location of  
11 the mistaken well. And A-31, what does that show?

12 A. That shows the location of the AWC well ending  
13 in 598. And if you notice, that location is within the  
14 box of where the -- within a 10-acre parcel of where the  
15 Cottonwood Lane plant is at, which is Well No. 14.

16 Included in this exhibit also is production data  
17 from DWR's website from 2000 -- I am sorry -- 1987  
18 through 2007. Also included in here is the annual  
19 report we submit to DWR -- unfortunately DWR's website  
20 has not been updated yet -- and it shows the submittal  
21 from the company.

22 And on the last sheet it shows the correct DWR  
23 number, which at the time we made the submittal. Part  
24 of our organization knew the correct number, the signage  
25 was incorrect. But you will see 598, which is Well

1 No. 14, has production for 2008 in the order of almost  
2 180 acre feet.

3 MR. SHAPIRO: So let me go ahead and move A-30  
4 and A-31 before I forget, Your Honor.

5 ACALJ NODES: Is there any objection to those  
6 exhibits?

7 MR. VAN CLEVE: No, Your Honor.

8 ACALJ NODES: A-30 and 31 are admitted.

9 (Exhibits Nos. A-30 and A-31 were admitted into  
10 evidence.)

11 BY MR. SHAPIRO:

12 Q. So to summarize, Mr. Schneider, there was a  
13 mistake on the company's part and this well was  
14 mislabeled?

15 A. Absolutely. The mistake was made by the  
16 company, inadvertently, by putting the wrong DWR number  
17 on the signage. There is no mistake on that.

18 Q. And Ms. Stukov brought that mistake to the  
19 company's attention?

20 A. Yes, she did. I can't remember if it was  
21 Ms. Stukov or Mr. Bozzo, I am not sure which one, but  
22 one of them brought it to our attention.

23 Q. And the company has subsequently corrected that  
24 mistake and the well shows proper information today?

25 A. Yes. The forms I pulled out which we submitted

1 as Exhibit A-28 is the exact copy of the last form we  
2 gave to Staff outlining the facilities. But since then  
3 we have given the correct information in the field and  
4 either that signage has been changed or is in the  
5 process of being updated and changed.

6 Q. And by May or so of this year, a couple months,  
7 two, three, after the inspection, the company provided  
8 information to Staff to reflect to Staff that a mistake  
9 had been made, but this well was in use and in service  
10 by the company?

11 A. Yes. We tried to explain there, right there,  
12 that we definitely made a mistake in our identification  
13 of that well.

14 Q. Okay. There was also some questions or  
15 confusion over a well known as the Valley Vista Well  
16 No. 1. Are you familiar with that?

17 A. Yes, I am.

18 Q. Okay. Let me hand you what we will mark as  
19 Exhibits A-32 and 33.

20 Is that right, Mr. James?

21 MR. JAMES: Yes.

22 BY MR. SHAPIRO:

23 Q. In fact, Ms. Wood asked you why DWR's records --  
24 or some questions about DWR's records indicating that  
25 this well and what is also known as the new Valley Vista



1 well or the Valley Vista 13 well were capped. Do you  
2 recall that?

3 A. Yes, I do. We had the discussion yesterday  
4 afternoon.

5 Q. Okay. And did you have a chance to go and  
6 follow up on Ms. Wood's concern?

7 A. Yes, I did. I checked up on that this morning.

8 Q. And do these exhibits address that?

9 A. Yes, I believe both of these exhibits, A-32 and  
10 A-33, address that.

11 Q. Okay. Why don't you identify each of the  
12 exhibits, Mr. Schneider, and describe the information  
13 that they contain.

14 A. All right. A-32 is the information directly off  
15 of the ADWR's website regarding the Valley Vista Well  
16 No. 1, which is the well that has not been used since  
17 2006. It was officially removed from service May 23rd  
18 of 2008.

19 And what it shows here is, if you move to the  
20 third page, it shows some documentation of when we  
21 submitted for the approval to drill a new well to  
22 replace this well. It was started in 2003 and we  
23 finished that well and submitted the completion package  
24 of drilling the well in 2006, which is shown here.

25 It also, moving to the very last sheet, shows

1 from DWR's records, which confirms, matches our records,  
2 that the last time the Valley Vista Well No. 1 was used  
3 was in 2006. That's the last date we have records of  
4 pumpage from that well.

5 Q. And this is the same well that you indicated  
6 during your earlier testimony should be retired, is that  
7 correct?

8 A. That is correct, it should be retired.

9 Q. And then the second document is for Well 13,  
10 correct?

11 A. Yes.

12 Q. That's the new well?

13 A. Yes, DWR number 55-212110. This is for the new  
14 well, Valley Vista Well No. 13, that the company  
15 drilled.

16 Q. And is there some indication in DWR's records  
17 that this well is capped?

18 A. Yes. To my surprise, exactly as Ms. Wood talked  
19 to me yesterday about, if you proceed on to page 3,  
20 under well comments at the bottom, that kind of  
21 midsection of the page, bottom of it, point out it shows  
22 Valley Vista well and has labeled well capped.

23 Q. Any idea why DWR shows that well -- well, is  
24 that well capped today?

25 A. No, that well is not capped. It has a pumping

1 motor in it, and we routinely run it for production.

2 Q. Has it been capped since -- well, you said that  
3 it was in production since May of 2008. Has it been  
4 capped since then at any time?

5 A. No. If it was capped, it would have been prior  
6 to the date that we put the pump and motor down the  
7 well. But it was probably capped at the completion of  
8 the drilling of the well, is my guess.

9 Q. And there was a period of time from the time  
10 this well was completed, there was a delay or period of  
11 time in between completion and bringing this well into  
12 service, several months in fact, right?

13 A. Yes.

14 Q. Okay.

15 A. There is typically a period of time we drill the  
16 well, we will case it, put the well into production in  
17 the sense of pump test the well to determine what the  
18 capacity of the well would be, what it should be  
19 equipped at. So then once we get all that information  
20 at the completion of the well, we call it the well  
21 development, we will typically cap the well and then  
22 from an engineering perspective proceed with the design  
23 of the electrical equipment, pump, motor and piping to  
24 come back and reequip that well for physical production.

25 Q. And all that construction and effort up through

1 the completion of the well occurred during the test  
2 year, correct?

3 A. It started in 2006 and ended 2007.

4 Q. And you will follow up with DWR about why they  
5 list the well as capped?

6 A. Yes. What I -- in trying to investigate why it  
7 may be listed as being capped, contained in this exhibit  
8 I also included a copy of the well drilling completion  
9 report. And if you kind of move to the last stapled  
10 set, at the very bottom of that page, which is a  
11 completion report of physically drilling the well filed  
12 with DWR, we show the well being properly capped at the  
13 completion of drilling. And I believe that is, by my  
14 best guess, why DWR listed it as being capped in light  
15 of having DEQ's approval and everybody else's approval  
16 to pump the well.

17 My guess is DWR has not updated their records  
18 yet, but we will see to it that their records are  
19 corrected.

20 MR. SHAPIRO: Okay. I will move A-32 and 33, I  
21 think.

22 ACALJ NODES: All right. Any objections?

23 MR. VAN CLEVE: No.

24 ACALJ NODES: A-32 and 33 are admitted.

25 (Exhibits Nos. A-32 and A-33 were admitted into

1 evidence.)

2 THE WITNESS: Could I add one more point about  
3 Exhibit A-33?

4 BY MR. SHAPIRO:

5 Q. Sure, please, Mr. Schneider.

6 A. I also included the information submitted to DWR  
7 for the Valley Vista or Rancho Road system. And you  
8 will notice that there are four wells. And the very  
9 last well is Well No. 212110, and it shows a pumping  
10 volume for calendar year 2008, which again is a partial  
11 year for this well, of about two acre feet. Sounds  
12 small, caught me by surprise.

13 I actually dug out the records on the well and  
14 verified that that number is actually 2.1 acre feet. It  
15 pumped 687,000 gallons, and at the treatment capacity of  
16 about 40 gallons a minute, which, remember, that's where  
17 this well goes, that equates to a run time of 286 hours.  
18 So albeit the acre foot seems small, but it does equate  
19 to quite a few number of hours of run time.

20 Q. And that was the 2008 pumping information?

21 A. Correct.

22 Q. Okay. And that would have been from end of  
23 May through the end of the year 2008?

24 A. That is correct.

25 MR. SHAPIRO: Okay. I believe I moved both

1 those and they were admitted. So, okay.

2 BY MR. SHAPIRO:

3 Q. Do you know what is referred to another item  
4 that Staff believes is not in use, and that's there is  
5 some booster pumps in the Miami system, correct, that  
6 Staff believes are not in use?

7 A. That is correct.

8 Q. And I don't know if you have Exhibit A-13 up  
9 there. Is that reflected in that exhibit, which was a  
10 summary of the plant?

11 A. I do not have the Exhibit A-13, but it is  
12 reflected in that exhibit as I worked with Joel to  
13 prepare that exhibit.

14 Q. Okay. You have Exhibit A-13?

15 A. Yes, I do.

16 Q. And on page 1, line 13, it refers to the Miami  
17 system and then the next column some booster pumps?

18 A. Correct.

19 Q. Are these the two booster pumps that are at  
20 issue between the company and Staff and RUCO, the  
21 company believes that these are in use?

22 A. They are currently in use. The Miami system  
23 would not be able to have adequate supply, matter of  
24 fact, it would be dramatically short of supply if these  
25 pumps were not in service.

1 Q. Do you have any idea, Mr. Schneider, why Staff  
2 believes that these booster pumps are not in service?

3 A. Yes, I do. I would like to point out through  
4 this we visited a lot of sites. We visited somewhere  
5 over 200 sites throughout the State of Arizona from  
6 Bisbee to Sedona, from Ajo all the way out to Lakeside.  
7 We covered almost 2500 miles driven in a vehicle, so we  
8 covered a lot of sites.

9 I believe on this site, it was -- we had an old  
10 booster pump that had been removed from service in 2004  
11 and replaced with a larger booster pump in 2004, the  
12 same year. And I think it was just a mistake that the  
13 old pump was actually -- the old booster pumps were out  
14 of service and it was just mistakenly noted as new  
15 booster pump out of service. But the old pumps are out  
16 of service and should be retired, if they are not  
17 retired.

18 Q. Okay. And if you will turn to page 2 of Exhibit  
19 A-13, on line 12, that refers to a plant facility known  
20 as the Sedona Golf Resort well, correct?

21 A. That is correct.

22 Q. This is another plant item that the company  
23 believes is in service and Staff and RUCO disagree?

24 A. That is correct.

25 Q. Again I will ask you the same question. Do you

1 know why perhaps Staff disagrees that this plant item is  
2 in service?

3 A. Yes. We respond to that in Joel's -- Joel  
4 actually responded, Mr. Reiker responded to that in his  
5 rejoinder testimony, which I helped him on.

6 What we did, we discovered through an inquiry  
7 from Staff that a DWR number for Well No. 55-516201 was  
8 listed. It is the old well that this new well replaced.  
9 It was listed as part of the Sedona system incorrectly.  
10 It should have been listed as part of the Rancho Road  
11 system. We did list 201 as being inactive, out of  
12 service, but we put it in the wrong system.

13 And when you look it up, tracking through the  
14 records, DWR actually made some mistakes in their  
15 documentation, which ultimately we got corrected before  
16 this rate case, which actually reflects this well as  
17 being No. 569 versus the 201. And we have the DWR  
18 number listed in the wrong system, and I think that's  
19 why that led to that mistake.

20 There is definitely some confusion. It took me  
21 quite a bit of time digging through the records on our  
22 side to determine exactly where that mistake was made  
23 and how it occurred.

24 Q. Mr. Schneider, you stated in your testimony that  
25 there was a lot of plant subject to inspection in this



1 case, correct?

2 A. Yes.

3 Q. But you are not pointing any fingers at anybody  
4 for these mistakes other than where the company bears  
5 responsibility, correct?

6 A. Oh, no, there are some of these mistakes that  
7 were clearly ours. We listed the wrong numbers on  
8 there, no doubt.

9 Q. The company is trying to make corrections to  
10 these errors and make sure that the rate base and plant  
11 in service provided in this case is correct in the end?

12 A. We want to make sure it is correct and accurate.

13 Q. This case won't be decided still for a few  
14 months, correct?

15 A. Correct.

16 Q. Okay. Mr. Schneider, will you commit as you sit  
17 here on the stand to provide Staff and/or RUCO with any  
18 additional information that they need to verify these  
19 assets that are in service as soon as possible?

20 A. Yes, I am willing to provide any information  
21 that either RUCO or Staff would require from us to show  
22 that these wells or facilities are currently in service  
23 and serving customers.

24 I would go as far as I will personally drive  
25 them to any site or any facility that they would like to

1 look at, and I will personally review those facilities  
2 with them to verify those facilities are in service or  
3 not in service. Because we believe, and I have  
4 physically verified, every one of these facilities are  
5 in service today, and were in the test year.

6 Q. And if Staff and RUCO can make the time to do  
7 that prior to the completion of briefing a few weeks  
8 after the trial, will you make sure that happens as  
9 well?

10 A. Yes, I will personally make sure it happens.

11 MR. SHAPIRO: Thank you very much,  
12 Mr. Schneider.

13 That's all we have on further direct.

14 ACALJ NODES: Thank you.

15

16 EXAMINATION

17 BY ACALJ NODES:

18 Q. Mr. Schneider, it sounds like the Staff and RUCO  
19 audit process is perhaps a little more thorough than  
20 what the company has in place internally, if you have a  
21 number of mislabeled wells and so forth.

22 A. There is no doubt, I mean this is a very complex  
23 case, the entire company going in for rates and a lot of  
24 facilities. So you are right. They were, Staff was  
25 very thorough in going through all the facilities. And

1 through that process, again, we looked at over 200  
2 sites, and there were a couple errors from the company's  
3 perspective in listing the incorrect either DWR numbers  
4 or a few of the plant items in the wrong system. That  
5 is correct. We made some mistakes.

6 Q. Have you thought about putting in place some  
7 better internal inventory or audit controls that will  
8 attempt to assure that these kind of errors do not occur  
9 in the future?

10 A. Yes. Actually, I have already implemented a  
11 process now where we are going through all of our plant  
12 files that list in detail since from all the records we  
13 have of all the DWR wells that we own, and ensuring that  
14 they are properly listed, properly listed on the DWR  
15 reports that we send to them, as well ensuring that our  
16 plant descriptions include all those wells accurately.

17 Q. So it sounds like, given the results that have  
18 been produced, it sounds like it was probably a good  
19 idea to give Staff a little more time to conduct its  
20 audits, would you agree with that, given the complexity  
21 of the case and thoroughness of Staff's review process?

22 A. I think it is fair to say that the time delay  
23 that was granted was well spent.

24 ACALJ NODES: Fair enough.

25 Ms. Van Quathem, any questions?

1 MS. VAN QUATHEN: No, Your Honor.

2 ACALJ NODES: Ms. Wood.

3 MS. WOOD: Thank you, Your Honor.

4

5

CROSS-EXAMINATION

6 BY MS. WOOD:

7 Q. Mr. Schneider, I am not sure which exhibit which  
8 document is in. I believe it is in A-33. It is a copy  
9 of, it says, looks like, a drilling authorization. The  
10 date at the top is entered May 24th, 2007 and it is on  
11 well registration No. 55-212110?

12 A. That is correct. That is for the new Valley  
13 Vista Well No. 13.

14 Q. This document is signed by Mr. Krall of Layne  
15 Christensen, dated 4/28/07?

16 A. Correct.

17 Q. And it indicates under condition of well,  
18 capped, correct?

19 A. That is correct.

20 Q. Okay. Now, if you turn to the sixth page of the  
21 exhibit --

22 MR. SHAPIRO: Are you on A-32, Ms. Wood?

23 BY MS. WOOD:

24 Q. I believe you indicated it was A-33, did you  
25 not, Mr. Schneider?

1 A. It is A-33.

2 MR. SHAPIRO: Thank you.

3 BY MS. WOOD:

4 Q. Okay. Now, according to the first line on the  
5 fourth paragraph of this letter from the Department of  
6 Water Resources -- and this is the letter dated June 8,  
7 2006.

8 A. June 8, 2006. Which paragraph, I'm sorry?

9 Q. Fourth paragraph down.

10 A. Okay.

11 Q. It says, does it not, that A.R.S. subsection  
12 45-600 requires the registered well owner to complete  
13 and file a pump installation completion report form, DWR  
14 form 55-56, within 30 days after the installation of  
15 pumping equipment, correct?

16 A. That's what it says, yes.

17 Q. Is that your understanding what the law  
18 requires?

19 A. Yes.

20 Q. Okay. Do you have a copy of a pump installation  
21 completion report?

22 A. I don't believe that is listed in the packet  
23 that I quickly pulled from the well drilling file.

24 Q. And isn't that in part why, when you go to the  
25 ADWR site, there is no pump data, because they don't

1 believe there is a pump installed?

2 A. I don't know. I was trying to determine from my  
3 investigation of why DWR may list that well as being  
4 capped. And as I dug through the well drilling file I  
5 found this form. And this form is what led me to  
6 believe that that must be why DWR lists the well as  
7 being capped, is that is what this form had said when we  
8 submitted it.

9 Q. Okay. Just one second.

10 Okay. I am looking at page 2 now of what I  
11 believe is your Exhibit A -- no. Is there -- I am  
12 looking at A -- you tell me what copy of the exhibit  
13 this is.

14 A. Yes.

15 Q. You had several things grouped together.

16 A. Do you have a DWR registration number?

17 Q. It is Well 13, 55-212110.

18 A. That would be Exhibit A-33.

19 Q. A-33?

20 A. It is part of the same exhibit from the package  
21 you were just looking at with the driller's report.

22 Q. Okay. It doesn't have any indication in this  
23 exhibit as to whether or not there is a pump installed?

24 A. I did not see anything on there listing that it  
25 shows any information about a pump being installed.

1 Q. Okay. Thank you very much.

2 Do you have any way of knowing -- you said that  
3 there were two acre feet of water reported in the  
4 community water system electronic filing indicating the  
5 two acre feet had been pumped from this well, is that  
6 correct?

7 A. That's correct.

8 Q. And that's for the total year 2008, correct?

9 A. Correct. But it would have been placed in  
10 service on May 23rd of '08. So I would assume that  
11 pumping would be taking place and in service through the  
12 end of the year this being a partial year.

13 Q. Okay. You said, would you agree, that it is not  
14 actually in service until there is a pump inside,  
15 correct?

16 A. It is not in service until we receive DEQ's  
17 approval of construction, and then our staff in the  
18 field moves forward to place that facility physically in  
19 service. That is the date it is in service, not just  
20 the date the pump and motor is installed.

21 Q. Well, if I were to ask you to couch your  
22 definition of in-service to be in terms of able to  
23 deliver water to ratepayers, it would require a pump  
24 installed, correct?

25 A. Yes, it would.

1 Q. Okay. And do you have with you today any  
2 demonstrable proof that a pump installation report has  
3 been filed with DWR that reflects the date that you are  
4 saying it was in service?

5 A. No. The documentation we have submitted,  
6 though, showing the AOC, approval of construction,  
7 issued by ADEQ details exactly the amount of column  
8 pipe, valves, piping, pump motor horsepower and such,  
9 showing that that well is fully equipped and has been  
10 approved by the State of Arizona as being equipped.

11 Q. Well, let's go back to that report one more  
12 time. Are you talking about this report here dated  
13 May 24th, 2007?

14 A. No. I am referring to the exhibit, I am not  
15 sure what the number was, that we had submitted  
16 previously showing the well AOC date was listed as  
17 May 23rd of 2008.

18 MR. SHAPIRO: I believe that's A-14, Your Honor.

19 MS. WOOD: I have your Exhibit A-14.

20 Do you have it, Your Honor?

21 ACALJ NODES: Yes, I have it.

22 THE WITNESS: Could I get a copy of one?

23 MS. WOOD: Do you have it right up there with  
24 you?

25 MR. SHAPIRO: Do we have the old exhibit from



1 the prior days?

2 ACALJ NODES: She has got them.

3 MS. WOOD: I could if you want just approach and  
4 share this one with him.

5 ACALJ NODES: Mr. Shapiro has one, looks like.

6 THE WITNESS: I have a copy of that now.

7 BY MS. WOOD:

8 Q. Looking at the product description on A-14,  
9 there is nowhere in there where there is an indication  
10 of installation of a pipe, excuse me, a pump, correct?

11 A. Let's see.

12 No, there is nothing on this form specifically  
13 here that shows that there was a pump and motor in it.

14 Q. Okay. And then --

15 A. But I would say on the exact same forms of Staff  
16 used when they came out and did their inspection that  
17 well was listed on that inspection form. It listed the  
18 pump and motor. And it was while we were there in the  
19 field, we looked at pictures taken and verified it as  
20 being in service as of the date that we visited the  
21 site.

22 Q. Can you see the pump from the top of the well?

23 A. This is a submersible pump, so it would look  
24 very similar to that of Staff's Exhibit A-5 where you  
25 can see the electrical conduit going down into the hole

1 and you can see the piping coming back out of the hole  
2 where the water comes out of, but the actual pump motor  
3 is in the bottom of the well.

4 Q. Do you have any picture like that that would  
5 relate to this well?

6 A. I don't have one with me, I do know that, unless  
7 it is shown on S-5. No, it is not. I don't have any  
8 pictures with me. I would have to either update some  
9 pictures or rely on Staff's pictures that they took on  
10 the date of our visit.

11 Q. Sitting here today can you confirm the exact  
12 date which the pump was installed?

13 A. I would be able, without digging through  
14 additional data, I would be able to confirm that as of  
15 May 21st of '08, which was the date the as-built plans  
16 and specifications are dated, as well as the registered  
17 engineer's certificate of completion dated May 12th of  
18 '08, that that pump was properly equipped, disinfected,  
19 and ready to be placed in service prior to that date, or  
20 that form would not have been signed and sealed by a  
21 registered engineer.

22 Q. Do you have a form from the engineer that  
23 indicates he installed the pump?

24 A. I can obtain some information as such if you  
25 would like. I do not have that with me.

1 Q. Okay. So today you don't have anything here  
2 today confirming the pump installation?

3 A. Other than the engineer certificate of  
4 completion, which again is completed by a registered  
5 engineer in the State of Arizona that he certifies that  
6 he has physically inspected the site and it is complete.  
7 I am relying on that May 12th date that that was the  
8 date the forms were completed and signed and sealed, and  
9 that work would have all been completed 100 percent  
10 prior to that date.

11 And digging further, the as-built drawings and  
12 specifications here dated January 21st, which is the  
13 date those as-builts were signed and sealed, would have  
14 reflected the well being complete, disinfected, with the  
15 pump and motor in it.

16 That's the documentation I do have in front of  
17 me. Additional documents I have to go back to the  
18 office and get.

19 Q. You have a line indicating that was done. Do  
20 you have the actual documents that are cross-referenced?

21 A. In the office I would have all those as-builts,  
22 letters, DEQ noting that all the information is there.  
23 I have all the new source sample data that shows the  
24 water quality parameters to obtain DEQ's approval, all  
25 the correspondence back and forth. I would have every

1 piece of paper related to that project, yes.

2 Q. But DWR does not have a record on its public  
3 screen indicating that there is a pump installed on this  
4 site?

5 A. DWR's website does not reflect that. Why it  
6 does not reflect, I could not answer that.

7 Q. All right. And as to the two acre feet, aside  
8 from your assertion it was sometime after May 21st,  
9 2008, can you pinpoint exactly when that well started  
10 pumping water and it was used by ratepayers?

11 A. I would have to get the -- I would have to get  
12 to the operations to find out the exact date, but I am  
13 told by the operators from the information they have  
14 provided me that they placed it in service on that  
15 May 28th date, the date that we gave them an approval to  
16 start using that well.

17 MS. WOOD: Okay. All righty. I have nothing  
18 further right now.

19 ACALJ NODES: Mr. Van Cleve.

20 MR. VAN CLEVE: Thank you. Thank you, Your  
21 Honor.

22

23 CROSS-EXAMINATION

24 BY MR. VAN CLEVE:

25 Q. I think it is still good morning for a few more

1 minutes here.

2 I wanted to clarify, I guess, the course of  
3 events, as you indicated, the thorough inspection  
4 process that Staff and the company went through during  
5 this, I guess, the course of this rate case leading up  
6 to the hearing. And I wanted to ask you whether or  
7 not -- when was the first time that the company  
8 indicated that there was some sort of mistake regarding  
9 the identification of the wells that you discussed  
10 earlier with Mr. Shapiro?

11 A. That would be the two wells, the one for Sedona  
12 Golf Resort and CG No. 14?

13 Q. Correct.

14 A. The very first time, again, in that exhibit when  
15 we notified -- back up.

16 On CG 14 in Casa Grande, the first time we  
17 notified Staff of that error was that e-mail included in  
18 Joel's rejoinder, I am sorry, Joel's rejoinder  
19 testimony, I believe -- Mr. Reiker's, sorry --  
20 Mr. Reiker's rejoinder testimony. I don't have that  
21 exhibit name right in front of me, but the one we  
22 referred to previously shows the e-mail that we  
23 submitted to DWR.

24 Actually I have it right here, Exhibit JMR-RJ3.  
25 So under that is an e-mail sent to Staff dated May 11th,

1 2009, which is when we officially notified them that  
2 there was a mistake on that DWR number.

3 Q. Okay. And on that point, again, this is  
4 something that the company pointed out to Staff and not  
5 Staff pointing out to the company, is that correct?

6 A. No, I believe what I clarified was we, we  
7 documented back to Staff that the number was incorrect.  
8 That e-mail was written or developed based on Staff's  
9 inquiry to us as to the number potentially being wrong,  
10 and they wanted to have a clarification. I am not sure  
11 exactly at what point in time for the review process by  
12 Staff that it was that they discovered it, but they  
13 relayed that information to us and we responded.

14 Q. So do you know if it was after Staff, the  
15 treatment Staff was proposing for that well, the  
16 disallowance of it, was it after that that you  
17 identified that there was an error regarding the well ID  
18 number, the DWR well ID number?

19 A. I don't recall the exact date that Staff's  
20 direct testimony was turned in, but I think it was right  
21 around June 15th or so. This e-mail would have been  
22 sent roughly five weeks prior to that date.

23 Q. And then turning to that issue of the Well 14,  
24 and I think what was marked as Exhibit A-28, is it fair  
25 to say that this was a part of a list of plant

1 description that the company provided to Staff  
2 originally?

3 A. This is the list of plant items we provided to  
4 Staff for the visit.

5 Q. And what you have here is limited to the Casa  
6 Grande system?

7 A. That is correct, this is.

8 Q. So there was more for the other systems, this is  
9 just the Casa Grande system?

10 A. There were volumes. Yes, there was volumes. So  
11 in essence there was this for literally 20 some  
12 different PWSID systems that we visited.

13 Q. And looking at that first page of A-28 where it  
14 is identified as Well 14, it is correct to say that the  
15 number that is identified there is the 443 number, is  
16 that correct?

17 A. That is correct. This is a copy of the exact  
18 form that I gave to Staff prior to the visit.

19 Q. And then further down on that same page in the  
20 first column where you see the markings NA, NA, NA, NA  
21 and it shows, looks like, five inactive, I assume those  
22 are wells, is that correct?

23 A. Yes, those would be wells.

24 Q. And one of those wells, the second one down,  
25 what is the number that is listed there?

1       A.       That is the number 55-616598, which was  
2       incorrectly listed at that location instead of under  
3       Well No. 14. So that's the mistake we made.

4       Q.       Okay. So you had it listed as an inactive well,  
5       and now what you are correcting here or proposing to  
6       correct here is that that number, it wasn't an inactive  
7       well, it should have belonged up in service, is that --  
8       it should have the 598 number and it wasn't an inactive  
9       well, is that correct?

10      A.       Right. What we are trying, what we're doing is  
11      changing the DWR number under Well No. 14, which was the  
12      well that we visited. We mislabeled it, both on the  
13      signage and on the markings on the wellhead itself.  
14      Those were both incorrect.

15               However, we did visit that site and check off  
16      that at that point in time, incorrectly No. 443, though,  
17      that that well, whichever number it may be, was in  
18      service and was pumping. We didn't really go through  
19      the wells by ADWR number; we went through the wells by  
20      site that the company owned. And if a site overall was  
21      listed as inactive, then we would not visit the site.

22      Q.       So I guess my question that goes to that is:  
23      Was there some other inactive well at the Casa Grande  
24      system that had an incorrect number there that 598 was  
25      incorrect for, or are you saying there was fewer wells



1 in that system than there really were?

2 A. What I am saying is that there are one, two,  
3 three, four, five inactive wells, I am sorry, six,  
4 because Well No. 9 was another one, there were six  
5 inactive wells in the Casa Grande system that we did not  
6 take Staff to because they were inactive and not in  
7 service.

8 Q. Okay.

9 A. In particular Well No. 9, we drove by that one,  
10 that well site, that is where we store quite a bit of  
11 our hydrants and fittings and such. We asked Staff if  
12 they wanted to take a look at the valves and fittings  
13 and such and they said, you know, no, those are  
14 inventory items. So and she physically asked is the  
15 well in service. And we said no, the well is not. And  
16 we had no desire at that point to visit a well that was  
17 inactive and the company was acknowledging it was  
18 inactive.

19 Q. So again just for my benefit, I guess you are  
20 saying there were six inactive wells in that system?

21 A. There were six inactive wells in that system  
22 which we did not visit.

23 Q. Okay. Now, did you provide an updated plant  
24 list to Staff at some point in the process after this?

25 A. Periodically throughout the process as we would

1 visit a site and find either a horsepower reading of a  
2 motor incorrect or whatnot, we would update those, the  
3 file, and we would forward on to Staff for their  
4 reference.

5 Q. And is that something, was that attached on one  
6 of the company's exhibits here today, do you know?

7 A. No, it is not. It is a spreadsheet which is  
8 basically a tab for each one of the PWSID number systems  
9 that the company has. So we would update electronically  
10 and transmit that electronically back to Staff.

11 Q. Maybe I wasn't phrasing my question clearly.  
12 But as to like Exhibit A-28, this set of documents that  
13 is included in A-28, it gives the water company plant  
14 description of wells, mains, customer meters, and then  
15 actually on the last, looks like, three or four pages,  
16 it goes through what sort of plant is associated with  
17 each of the wells?

18 A. Correct. This is what -- what we have as  
19 Exhibit A-28 was transmitted to Staff electronically,  
20 and each system, Casa Grande, Tierra Grande, Coolidge  
21 and such, would have its own tab. And that is where  
22 that information would be, was provided to Staff.

23 Then in the field I would print out a hard copy  
24 of this to ensure that when we showed up at the field at  
25 each time we had a hard copy map for everybody on the

1 site visit, as well as a hard copy as you see in A-28.

2 Q. And as it relates to A-28, I guess what my  
3 question is, was there an updated version of this at  
4 some point that the company provided to Staff throughout  
5 this process?

6 A. Yes, we continually updated it. And I believe  
7 right around February 10th was the last one we updated  
8 after our last visit.

9 Q. And are those documents in any of the exhibits  
10 that have been offered by the company today that you are  
11 aware of?

12 A. No, they are not.

13 Q. If I could have you turn to the surrebuttal  
14 testimony of Katrin Stukov.

15 And we are getting copies of that, Your Honor.

16 MR. SHAPIRO: Do you have it, Mr. Schneider?

17 THE WITNESS: I have a piece of it. Is there a  
18 specific exhibit or something you are going to refer to?

19 BY MR. VAN CLEVE:

20 Q. Actually there is. It is the, I guess it is the  
21 Exhibit KS-SB1 that's attached to that testimony.

22 A. I have that exhibit.

23 Q. Okay. And on that particular attachment, I  
24 think it is the third page in, does that document look  
25 familiar to you?

1 A. Yes, it does.

2 Q. Okay. And would you characterize that as being  
3 one of the updates of, I guess, Exhibit A-28 that you  
4 would have provided to, or an excerpt of that that you  
5 would have provided to Staff at some point in the  
6 process of this case?

7 A. That is correct. And this is where we noted the  
8 correct DWR number for Well No. 14, and made a note that  
9 DWR No. 55-613443 does not belong to the company.

10 Q. Okay. And I believe you had said, as it relates  
11 at least to A-28, there were six inactive wells that the  
12 company had related to that system --

13 A. Yes.

14 Q. -- on A-28?

15 A. Yes.

16 Q. Now, on the exhibit that's attached to  
17 Ms. Stukov's testimony, the one I had referred to you,  
18 are there only five inactive wells?

19 A. No. I see six.

20 Q. And let's compare that to A-28. Which -- I mean  
21 are you saying there is an identical number between the  
22 two?

23 A. Do you want to start at the very bottom?

24 Q. Looking at A-28, for instance, I referred you to  
25 the section inactive. And I incorrectly said that there

1 was five inactive wells, and I believe you had corrected  
2 me and said there were six on A-28. How many are there  
3 listed on A-28?

4 A. Well, I consider not in service and inactive  
5 being the same, so there are four listed as being  
6 inactive. At the very bottom of that, Well No. 34 is  
7 listed as not in service, and Well No. 9 is not in  
8 service. So those are six inactive wells.

9 Q. And this is on A-28?

10 A. I am sorry. I was referring to exhibit, I  
11 thought, KS-SB.

12 Q. My fault.

13 Looking at A-28, how many do you count,  
14 including the not in service wells and the inactive  
15 wells?

16 A. I think I missed No. 34 before, so now I see  
17 seven of them.

18 Q. So there are seven listed on A-28?

19 A. Yes.

20 Q. And how many do you see listed on the other  
21 exhibit attached to Ms. Stukov's?

22 A. There would be one less since we removed the 443  
23 number as not being a company well, we removed that  
24 information that was with that as well.

25 So along the way, we correct -- we had an

1 incorrect DWR number, so we have along the way removed  
2 the information for one of the wells that was  
3 incorrectly identified.

4 Q. Okay.

5 A. So it would be an inactive well that is not in,  
6 we did not visit.

7 Q. So there was not -- there was a well not ever  
8 associated with the Casa Grande system, is what you are  
9 saying, and that's what is reflected in the updated  
10 schedule attached to Ms. Stukov's testimony?

11 A. Correct. It should be Well No. 443.

12 Q. Okay.

13 ACALJ NODES: Mr. Schneider, did you visit with  
14 Staff -- you visited every active well site on the  
15 company's entire system?

16 THE WITNESS: I missed a couple of the visits  
17 early on. But the company visited every active -- every  
18 site that the company owns that has facilities that are  
19 in service, be it a well, a storage tank, other than I  
20 want to clarify there were a couple locations we did not  
21 go to. There were repeater stations up on top of  
22 mountains that were difficult to drive to. Those were  
23 the only sites we did not.

24 ACALJ NODES: But Staff actually visited, other  
25 than the two exceptions you mentioned, Staff actually

1 physically conducted a site visit on every active well  
2 site?

3 THE WITNESS: Yes.

4 ACALJ NODES: Okay.

5 BY MR. VAN CLEVE:

6 Q. And following up on that, that would be well  
7 sites that are indicated as being active on the plant  
8 description sheets that we have been talking about, or  
9 how was that determined?

10 A. If you refer back to Exhibit A-28 and you move  
11 to the second sheet, I am sorry, third sheet, every item  
12 that is listed on here are the sites we would visit.

13 Q. Okay.

14 A. And that corresponds to the A through EE on the  
15 Exhibit A-29 which is a corresponding map. So we would  
16 go through these items here. Upon completion of that  
17 site visit to Well No. X, we would then go to the front  
18 sheet and we would walk through to verify the signage on  
19 the front gate matches the number we list right here in  
20 the table, A-28, and then we would verify that all the  
21 rest of the information for that well is correct, the  
22 depth, the yield, the meter size, being active, such.

23 So in this exact case on 14, we verified that  
24 the signage matched the first page of A-28, not knowing  
25 at the time that both of those, the signage and the

1 form, were both wrong. But we did verify the company  
2 was correctly stating that that Well No. 14 was active  
3 and in service, just through the investigation realized  
4 the wrong DWR number was posted on the signage.

5 Q. And so that sheet, I think you pointed to the  
6 third page in that list, that it looks like is the  
7 majority of the rest of A-28, is that a list of just  
8 what is considered in service as of -- as to the items  
9 listed on the first page of that document?

10 A. There are items on this sheet that you referred  
11 to starting on page 3?

12 Q. Well --

13 A. Items on here not on the first page because the  
14 first page is only wells. The third page, which is all  
15 of our plant items, includes our office building, a  
16 booster station. It doesn't have a well, a repeater  
17 station and such. So it would not be a direct  
18 one-to-one one comparison.

19 Q. But is it fair to say that if there is an  
20 inactive well listed on the first page, that you  
21 wouldn't visit that and you wouldn't be looking at any  
22 of the plant that was associated with that inactive  
23 well? Is that fair characterization?

24 A. What would be a fair characterization is, on the  
25 third page, if there is a well site listed on that third



1 page, fourth page, and fifth page, it is fair to say  
2 that those are the sites that we visited.

3 Q. And those are the active wells?

4 A. Active wells.

5 Q. And the plant?

6 A. Storage tanks, it may not just be wells. So it  
7 would be fair to say everything you see on the map and  
8 every item you see listed on page 3, 4 and 5 are the  
9 sites that we visited. Irrespective of any numbers that  
10 may or may not be listed, those are the sites we  
11 visited.

12 Q. Referring back to the Exhibit S-5, the  
13 photographs --

14 A. Yes.

15 Q. -- do you dispute that that is a sign that  
16 existed or exists at one of your sites in Casa Grande?

17 A. No, we are not in dispute. That is the sign  
18 that the company had on its Cottonwood Lane Well Site  
19 No. 14 that incorrectly listed the DWR number. It does  
20 correctly list, the rest of the corresponding  
21 information on that sign is correct, PWSID number, POE  
22 number, but the DWR that we, the company, listed on  
23 that, that signage, is incorrect.

24 Q. Just out of curiosity, I understand, I think it  
25 was Exhibit A-31 and some of the exhibits earlier, you

1 indicated this well ending in 443 didn't belong to the  
2 company and belonged to, I forget the name of it, but  
3 Aztec Land & Cattle Company, where did you get that  
4 number from, just out of curiosity?

5 A. I have looked as thoroughly as I can through all  
6 the documents to figure out where that number came from,  
7 and I cannot find a reference to that anywhere. I have  
8 even gone back through all of our DWR reports that we  
9 submit for DWR for the volumes we pump from wells, and  
10 every document we have everywhere else in the company,  
11 it always lists the correct DWR number. So how the  
12 number got in the signage and form, to the best of me I  
13 have been unable to find out how that number got used.

14 MR. VAN CLEVE: No further questions, Your  
15 Honor.

16

17 FURTHER EXAMINATION

18 BY ACALJ NODES:

19 Q. Mr. Schneider, shouldn't the company have  
20 conducted a thorough inventory and audit before it -- as  
21 it was preparing its rate case and prior to filing?

22 A. We did. We verified that the items on this  
23 sheet listing the wells are accurately reflected on this  
24 page here, and that the information on the first page of  
25 Exhibit A-28 is correctly listed on the sites.

1           So what we, in essence what we verified is that  
2 the incorrect number listed on the first page of the  
3 exhibit, we verified and actually made sure that that  
4 same number existed on each one of the plant sites.

5           Had that first -- I am sorry. Had that first  
6 sheet been correctly noted with the correct DWR number,  
7 we would have noticed right upon showing up at the site  
8 for our own internal audits that that sign was wrong.

9       Q.     So you verified incorrect information at least  
10 in some instances?

11      A.     We verified that everything we had in the field  
12 was incorrect, is what we did, because that piece of  
13 incorrect information we had.

14           ACALJ NODES: Okay. And Mr. Shapiro, are you  
15 going to have redirect?

16           MR. SHAPIRO: I am. And I think it will go  
17 relatively quickly, if you would rather get it finished.

18           ACALJ NODES: I would like to, if we can. Let  
19 me ask Colette, though.

20           Are you okay for 10 more minutes?

21           THE REPORTER: Yes.

22           MS. WOOD: I don't know. Usually you ask if  
23 there are any other questions before we do redirect so  
24 we don't have to go back around. Do you want to do  
25 that? Because I do have one more exhibit I would like

1 to get in and one more question about another exhibit  
2 that is already in.

3 ACALJ NODES: Okay. Let's go ahead and do that.

4 MS. WOOD: Okay. May I approach with  
5 Exhibit R-14?

6

7 FURTHER CROSS-EXAMINATION

8 BY MS. WOOD:

9 Q. Mr. Schneider, we have already discussed this  
10 issue before, but I just wanted to have a -- the  
11 document that caused the initial confusion. In front of  
12 you is a copy of the well registry for Well  
13 No. 55-212110, correct?

14 A. That is correct.

15 Q. And that's what we have been calling as Valley  
16 Vista Well No. 13, correct?

17 A. That is correct.

18 Q. And under the location where it says pump data  
19 available, it says no, right?

20 A. You are correct, that is what it says on R-14.

21 Q. And where the description ordinarily goes for  
22 pump capacity it is blank, correct?

23 A. That is correct.

24 Q. Okay. Now, the next question I have relates to  
25 your Exhibit, I believe, A-33, the community water

1 system electronic filing receipt. It looks like this.

2 A. Yes. So one of three pages?

3 Q. Yes.

4 A. Yes.

5 Q. And on page 1 of the documentation, it has  
6 part 1, water withdrawn, and it indicates that including  
7 the two acre feet from Well No. 55-212110, the total  
8 amount of water withdrawn was 404 acre feet, correct?

9 A. That is correct.

10 Q. Now, on this exhibit on page 2, it also  
11 indicates how much water was actually delivered to  
12 customers, correct?

13 A. Yes, listed total delivered as well as the total  
14 connections.

15 Q. And the total amount delivered to customers was  
16 306 acre feet, correct?

17 A. I am sorry, 386.

18 Q. 386 acre feet?

19 A. That is correct.

20 Q. Okay. So the difference would actually be some  
21 18 acre feet or so?

22 A. Subject to check, but...

23 Q. Let me see. I am not a mathematician. That's  
24 why I went to law school.

25 A. I believe you are right, it is 18 acre feet.

1 Q. Okay. So there really isn't here today any way  
2 you can discern for us that the two acre feet from the  
3 Well 55-212110 actually ever arrived at the doorstep of  
4 any residential customers, is there?

5 A. Well, if it -- it is a series of networks of  
6 pipes, with a series of meters connected to those pipes.  
7 And within that grid of pipes are wells that pump into  
8 those pipes. So if a molecule of water got into that  
9 pipe, it would be fair to say that somewhere along the  
10 way a customer took delivery of that molecule of water.

11 MS. WOOD: Okay. Thank you.

12 I don't have any further questions, Your Honor.

13 ACALJ NODES: Okay, Mr. Shapiro.

14 MR. SHAPIRO: How many molecules in an acre  
15 foot?

16 Do you want to move Exhibit A-14, Ms. Wood?

17 MS. WOOD: Actually yes, please.

18 ACALJ NODES: A-14?

19 MR. SHAPIRO: I am sorry, R-14.

20 ACALJ NODES: I thought you were very kind in  
21 helping her out, Mr. Shapiro.

22 Okay. Any objection to R-14?

23 MR. SHAPIRO: No.

24 ACALJ NODES: All right. R-14 is admitted.

25 (Exhibit No. R-14 was admitted into evidence.)

## REDIRECT EXAMINATION

1  
2 BY MR. SHAPIRO:

3 Q. Mr. Schneider, Ms. Wood asked you whether you  
4 have any evidence as you sit here that there is a pump  
5 installed in the Valley Vista No. 13 well. You have  
6 testified that there is a pump installed in that well,  
7 haven't you?

8 A. I have physically seen the pump and motor at  
9 that well site.

10 Q. So you believe that you have personal knowledge  
11 of the existence of that pump in that well?

12 A. I can personally attest that there is a pump and  
13 motor in the bottom of that hole in that well.

14 Q. Okay. You also have records indicating that  
15 water had been pumped from that well since it went into  
16 operation, correct?

17 A. Yes. That is the information provided in  
18 Exhibit A-33.

19 Q. Can you pump water from a well without a pump?

20 A. I guess maybe with a long rope and a bucket.

21 Q. Is Arizona Water Company using a long rope and a  
22 bucket with this well?

23 A. No, Mr. Shapiro, we are not.

24 Q. And Exhibit A-14, do you have that up there  
25 still?

1 A. Yes, I do.

2 Q. Where it says variance is granted down about the  
3 lower third of the page and below it says the well is  
4 approved to pump up to, what is that based on?

5 A. The previous well, Valley Vista Well No. 1, had  
6 an arsenic -- has an arsenic treatment plant at that  
7 site. And we are utilizing the existing arsenic  
8 treatment plant to treat for the elevated levels of  
9 arsenic that are in the new well, that Valley Vista Well  
10 No. 13.

11 When that plant was constructed, designed and  
12 constructed, it was designed and constructed to treat a  
13 quantity of water equivalent to approximately 50 gallons  
14 a minute. So to take the new well and run it through  
15 the old plant, we are limited to that capacity until the  
16 new plant is fully constructed.

17 Q. And it also shows just a couple blocks above  
18 that the company submitted as-built drawings and  
19 specifications on January 21st, '08?

20 A. Yes. Now, keep in mind those dates are the  
21 latest dates of submittal, not necessarily the original  
22 date of submittal.

23 Q. Right. But those as-built drawings and  
24 specifications would show a pump if a pump was  
25 installed, wouldn't they?



1 A. Yes, it would.

2 Q. So ADWR may have information that shows the pump  
3 and just didn't know it?

4 A. Yes. I am not sure why their information is not  
5 current.

6 Q. Okay. We have been talking this morning about  
7 essentially three items that are plant that the company  
8 deems in use and are in dispute Cotton Well 14, Valley  
9 Vista Well -- I am sorry, four -- Valley Vista Well 13,  
10 the Miami booster, and then a Sedona golf course resort  
11 well, right?

12 A. I believe looking at Exhibit A-14.

13 Q. I think it was A-13, but those four items are  
14 the ones we talked about today?

15 A. Yes.

16 Q. There are a couple more smaller items that fit  
17 that category of currently in use, and Staff or RUCO  
18 disagree?

19 A. That's right. That's what I was going to refer  
20 to, yes.

21 Q. These four seem to be the primary items that  
22 have significance?

23 A. Yes.

24 Q. How many plant facilities did the company have  
25 to inventory and address in this case?

1 A. I believe the exact number was 209.

2 Q. Out of 209, we have a couple, a few, that have  
3 some form of discrepancy?

4 A. Yes. Now, there is 209 facilities. But within  
5 each one of those facilities there may be anywhere from  
6 one or 10, 12, 15 items that had to be verified at each  
7 site.

8 Q. So there are literally hundreds of thousands of  
9 individual plant items that the company had to keep  
10 track of and inventory and show to Staff, et cetera?

11 A. That is correct.

12 Q. And of the four items that we talked about, you  
13 are not aware of any mistake the company made with  
14 respect to the Miami booster station pumps?

15 A. No, I am not.

16 Q. And you are not aware of any mistake the company  
17 made with respect to Valley Vista Well 13?

18 A. No, I am not.

19 Q. And you have taken responsibility for some of  
20 the -- from the mistakes that the company has made in  
21 the process of doing this inventory?

22 A. Yes, I believe I have.

23 Q. And tried to correct those as rapidly as the  
24 information became available to correct those?

25 A. As quick as, as soon as we would find out about

1 an error, we would try to correct that discrepancy as  
2 quick as possible.

3 Q. Do you think this is fair for the Commission to  
4 disallow plant items because the company made a mistake  
5 that it has tried and is continuing to try to correct?

6 A. Stated that way, we have continually tried to  
7 correct it, no, I don't think that is fair.

8 ACALJ NODES: Mr. Schneider, it is interesting  
9 Mr. Shapiro pointed you to how many facilities the  
10 company has. Do you have a responsibility for any other  
11 utility company systems within the State of Arizona?

12 THE WITNESS: No. I just have responsibility  
13 for Arizona Water Company's. There is --

14 ACALJ NODES: So you don't have to conduct  
15 audits for Arizona-American, Global Water, or any of the  
16 other approximately 300 small water systems that exist  
17 in the State of Arizona?

18 THE WITNESS: No, Judge Nodes, thankfully I do  
19 not.

20 ACALJ NODES: Or any of the natural gas  
21 companies or the electric companies that exist  
22 throughout the state?

23 THE WITNESS: That would be correct.

24 ACALJ NODES: But in fact, Staff does have those  
25 responsibilities, do they not?

1 THE WITNESS: Absolutely. A matter of fact,  
2 some of our tours were interrupted by other facilities  
3 that had to be visited as well.

4 ACALJ NODES: And Staff doesn't have any control  
5 over when any or all of those various utility companies  
6 throughout the state decide to file a rate case or any  
7 other type of application before the Commission, do  
8 they?

9 THE WITNESS: Typically no.

10 ACALJ NODES: So Staff has to process whatever  
11 is submitted to the Commission by any given utility  
12 company at any given time, correct?

13 THE WITNESS: That would be correct.

14 ACALJ NODES: Okay. Go ahead, Mr. Shapiro.

15 BY MR. SHAPIRO:

16 Q. You are not suggesting that Staff doesn't have a  
17 lot of work on its plate, are you, Mr. Schneider?

18 A. No. I would venture to say that just taking  
19 care of our case and visiting all these sites is really  
20 a daunting task in itself, not to mention all the other  
21 sites that have to be visited by Staff for other  
22 utilities.

23 Q. And have you provided Staff all the information  
24 that you can to help with its inspection and analysis?

25 A. Yes, I have.

1 Q. And where Staff has made a mistake, have you  
2 tried, where you could, to provide information to help  
3 correct it?

4 A. Yes, I have.

5 Q. And you are aware that Staff and RUCO have made  
6 mistakes in this case and filed some errata?

7 A. From listening to the testimony the last couple  
8 days, sounds like, you know, mistakes were made by other  
9 parties. But again, it is a very large, complex case as  
10 well.

11 Q. And what we have in the situation of the Well  
12 No. 14 is that Ms. Stukov on behalf of Staff was taken  
13 to a well that was shown to be in use, correct?

14 A. Correct.

15 Q. And then came back and found that the DWR number  
16 on that same well indicated it was not in use, correct?

17 A. That would be correct.

18 Q. And then the company and Staff worked to provide  
19 additional information back and forth, and ultimately  
20 prior to Staff taking a position, the company had  
21 demonstrated the mistake and tried to address the  
22 problem and help Staff correct it, right?

23 A. Yes.

24 Q. At the end of the day, Mr. Schneider, is the  
25 goal to point fingers or get the right information into

1 the record?

2 A. I am not here to point fingers at anybody except  
3 for some mistakes that I am personally responsible.  
4 Neither pointing fingers, I just want to get the record  
5 correct as to facilities that are in service.

6 Again, it is a very large, complex case and it  
7 is not a simple case to review and verify by any means.

8 Q. And as you sit here today, if there is  
9 additional effort, again, just to be clear, you are  
10 willing to do whatever it takes to help provide that  
11 information so we have a complete, fair record?

12 A. Yes, I have given my personal commitment to do  
13 whatever it takes to ensure that any party that has or  
14 needs additional information, that I will provide that  
15 information.

16 ACALJ NODES: Well, didn't the company, despite  
17 the complexity of the case, which you have indicated  
18 fairly clearly existed, didn't the company vehemently  
19 oppose any extension of time to allow Staff for  
20 processing this case? Do you recall any filings made by  
21 the utility company that objected to any continuance,  
22 absent the company being given some form of interim  
23 rates in this case?

24 THE WITNESS: Judge Nodes, I was not present or  
25 a party of those prehearings or hearings and

1 discussions, but yes, I do recall hearing some  
2 discussion regarding the topic as you described.

3 ACALJ NODES: And at least for these items that  
4 you have indicated some mistakes were made, but for  
5 Staff's audit and the thoroughness of that audit, is it  
6 likely that these mistakes would continue to be included  
7 within the company's record keeping and accounts?

8 THE WITNESS: In the case of those two wells,  
9 yes, it would be fair to say that they would have  
10 continued until such point in time that we would have,  
11 through evaluating through our records, identified those  
12 two items.

13 ACALJ NODES: Thank you.

14 Mr. Shapiro.

15 MR. SHAPIRO: Yes, just a couple.

16 BY MR. SHAPIRO:

17 Q. Did the company ultimately accept the  
18 Commission's decision to add another two months to the  
19 schedule in this case?

20 A. Again, I was not present during all those  
21 hearings, but from what I understand as we sit here  
22 today, yes, 60 days were granted additional time.

23 Q. And the company's opposition to that extension  
24 request didn't have any impact on the company's efforts  
25 to cooperate with Staff and RUCO throughout the

1 discovery and audit process, did it?

2 A. It did not impact our process.

3 MR. SHAPIRO: Thank you.

4 ACALJ NODES: If you know, Mr. Schneider, did  
5 the company file a pleading after my procedural order  
6 granting the 60-day extension which indicated that it in  
7 fact did not agree to the 60-day extension?

8 THE WITNESS: To be honest, Judge Nodes, you  
9 are -- those kind of things are outside of my range. I  
10 specifically specify on the engineering issues and such.  
11 So I am sorry, but I could not. Maybe somebody else  
12 could elaborate.

13 ACALJ NODES: Okay. Thank you.

14 Ms. Wood, any additional questions?

15 MS. WOOD: Just because the witness offered it,  
16 we would like a copy of the pump installation completion  
17 form that was submitted to ADWR if we could.

18 ACALJ NODES: Is that something you would have,  
19 Mr. Schneider, you believe?

20 THE WITNESS: That should be something we have  
21 in our file that I can go back and obtain when we can  
22 submit it.

23 MS. WOOD: And then the last question was on  
24 what date did you visit the site and see the pump in  
25 place?



1 THE WITNESS: It would have been, exact date,  
2 probably somewhere around right when I -- September-ish,  
3 October-ish of '07.

4 MR. SHAPIRO: Ms. Wood, you are referring to  
5 the, not to the Cottonwood well which has the picture  
6 date, but to the Valley Vista 13 well?

7 MS. WOOD: Yes.

8 MR. SHAPIRO: Thank you.

9 THE WITNESS: Somewhere around -- I started with  
10 the company in August, and one of the first sites I  
11 believe I had visited was the Valley Vista site.

12 MS. WOOD: Okay. Thank you.

13 ACALJ NODES: Mr. Van Cleve, anything further?

14 MR. VAN CLEVE: Nothing further, Your Honor.

15 ACALJ NODES: Mr. Shapiro, anything further?

16 MR. SHAPIRO: No, Your Honor.

17 ACALJ NODES: Okay. Mr. Schneider, thank you  
18 for your testimony once again. And you are excused,  
19 hopefully for the rest of the case, I am sure, from your  
20 perspective.

21 THE WITNESS: Thank you.

22 ACALJ NODES: Okay. We are going to take a  
23 lunch break until, it would be 1:45.

24 (A recess ensued from 12:38 p.m. to 1:47 p.m.)

25 ACALJ NODES: Let's go back on the record.

1           And Mr. James, you are prepared to recall  
2 Mr. Garfield?

3           MR. SHAPIRO: Yes. We will recall Mr. William  
4 Garfield.

5           ACALJ NODES: Welcome back, Mr. Garfield.

6           MR. GARFIELD: Good afternoon, Your Honor.

7           ACALJ NODES: And remind you you are still under  
8 oath.

9           MR. GARFIELD: Yes.

10          ACALJ NODES: Go ahead, Mr. James.

11          MR. JAMES: All right.

12

13                       WILLIAM GARFIELD,  
14 recalled as a witness herein, having been previously  
15 duly sworn by the Certified Reporter to speak the truth  
16 and nothing but the truth, was examined and testified as  
17 follows:

18

19                       DIRECT EXAMINATION

20 BY MR. JAMES:

21       Q.       Let's start with a minor housekeeping matter,  
22 Mr. Garfield. Do you have a copy of what has been  
23 marked for identification as Exhibit A-24?

24       A.       Yes, Mr. James, I do.

25       Q.       And would you just summarize for the record what

1 Exhibit A-24 consists of.

2 A. Yes. A-24 consists of some basic information  
3 about the American Water Works Association.

4 Q. And as you recall, Mr. Garfield, there was an  
5 issue that came up, I think it was two days ago,  
6 regarding what the American Water Works Association is  
7 and whether it is an investor-owned utility trade  
8 association or something to that effect.

9 Are you familiar with the American Water Works  
10 Association yourself?

11 A. Yes, I am. I am a member as well.

12 Q. And do you participate in any committees or in  
13 other activities of this association?

14 A. Yes. Besides being a member, I am a member of  
15 the American Water Works Association water meter  
16 standards committee, have been for many years.

17 Q. Is it fair to say that the association is not a  
18 trade association?

19 A. Yes, that would. I would describe the American  
20 Water Works Association, AWWA, as a broad-based group or  
21 association that is comprised of engineers, consulting  
22 engineers, scientists, regulators, both some utility  
23 commission memberships as well as health departments,  
24 state health departments that are members or on the  
25 board of the association, manufacturers, water

1 districts, cities, just a broad-based association  
2 comprised of many entities involved with the water  
3 industry in some form or another.

4 Q. And does it publish manuals, guides, and other  
5 materials that are used to establish standards in the  
6 water utility industry for both municipal and privately  
7 owned entities?

8 A. Yes. For example, the meter standards committee  
9 that I serve on, the standards committee establishes  
10 meter standards, standards for both revenue producing  
11 meters and also meters for measuring source at wells and  
12 treatment plants, non-revenue meters that water industry  
13 uses and manufacturers use to produce meters that are  
14 manufactured to a standard that the industry has set.

15 In addition, Mr. James, if I might, the American  
16 Water Works Association also prepares standards for all  
17 types of water system materials, pipe materials, service  
18 materials, how water tanks are constructed, even how  
19 wells are drilled and constructed. So they are involved  
20 with almost all aspects of the water industry concerning  
21 standards.

22 Q. And again, it is not limited to private  
23 utilities, is that right?

24 A. No, it is not. It is broadly based.

25 MR. JAMES: Your Honor, I move that what has

1 been marked for identification as Exhibit A-24, which is  
2 just back to background information, I think you had  
3 asked about for the American Water Works Association, be  
4 admitted.

5 ACALJ NODES: All right. Any objection to A-24?

6 (No response.)

7 ACALJ NODES: A-24 is admitted.

8 (Exhibit No. A-24 was admitted into evidence.)

9 BY MR. JAMES:

10 Q. I think also, Mr. Garfield, Judge Nodes had  
11 asked that you be recalled because of questions that  
12 came up when Mr. Reiker was cross-examined about the  
13 company's dividend policy. Do you recall that?

14 A. Yes, I recall. And as I recall as well, it was  
15 whether any of the company's board of directors were  
16 present, and of course, there was.

17 Q. Okay. And so it is clear for the record, you  
18 are on the company's board of directors?

19 A. I am.

20 Q. So Mr. Reiker's statement that no one on the  
21 board of directors was present was not correct?

22 A. I am not sure if those were precisely his words,  
23 but in any event, I was present. I am on the board.  
24 And I am here today.

25 MR. JAMES: At this point, Judge Nodes, I am not

1 sure what you would like me to do, since you had, you  
2 had some questions, I believe, for Mr. Reiker that  
3 Mr. Reiker was unable to answer because he simply  
4 doesn't know. So Mr. Garfield is here. So...

5 ACALJ NODES: Does that complete all of your  
6 direct examination?

7 MR. JAMES: Yes. Unless you would like me to  
8 get into other areas, I was going to limit it to these  
9 two topics.

10 ACALJ NODES: For right now I will take it, and  
11 then we will go around and ask, and Chairman Mayes may  
12 have some questions as well.

13

14 EXAMINATION

15 BY ACALJ NODES:

16 Q. Mr. Garfield, during Mr. Reiker's testimony, he  
17 indicated that the current dividend payout is done  
18 quarterly, and according to Mr. Reiker, it is currently  
19 paying a dividend that amounts to a total of  
20 approximately a million dollars per quarter, is that  
21 correct?

22 A. Yes, that is correct, Your Honor.

23 Q. And he also indicated that the dividend amount  
24 was actually increased, I think he said, about a year  
25 and a half ago, is that correct?

1       A.       Actually, Your Honor, I believe I heard him  
2       state that, without perhaps fully having the information  
3       in front of him. Since then I have looked back at my  
4       records to look at the history of dividend payments at  
5       least over the last several years. I believe that was  
6       the time frame, Your Honor, that you were talking about.  
7       And the dividend payment, while it did increase about  
8       two and a half years ago, it has been frozen at that  
9       level since.

10      Q.       So let's round and say somewhere in the range of  
11      early 2007 the dividend was increased. What was the  
12      prior dividend amount that was paid out on a quarterly  
13      basis prior to it being increased?

14      A.       I believe it was approximately 950,000.

15      Q.       Okay. And I have also asked for the minutes of  
16      the board meetings, which I understand the company or  
17      your attorneys are in the process of preparing and you  
18      expect to have those by tomorrow. Do you agree with  
19      that?

20      A.       They are in the process of being compiled and  
21      assembled for that purpose.

22      Q.       Right. And the company has agreed to provide  
23      those under confidentiality to myself and the five  
24      Commission offices, is that correct?

25      A.       That is my understanding, Your Honor, yes.

1 Q. Okay. Can you explain the -- let me back up a  
2 minute.

3 The company has filed in this case a request for  
4 a rate increase. And part of the increase, as I  
5 understand it, is due -- well, first of all, the  
6 Commission required the company to file, but I think it  
7 has also been indicated that the company would have had  
8 to file anyway because you needed rate relief, is that  
9 right?

10 A. That's correct, Your Honor.

11 Q. Okay. And throughout the testimony that has  
12 been filed by the company in this case, there are  
13 indications that both management and nonmanagement  
14 personnel have been laid off in the past year or so, is  
15 that right?

16 A. That's correct.

17 Q. And how many -- I think it was we heard, I  
18 think, eight members of the union were laid off. How  
19 many management employees were laid off?

20 A. Your Honor, if I might distinguish slightly. I  
21 believe the union witness this morning talked about -- I  
22 am trying to remember the exact abbreviation for that,  
23 but his definition was management. And I look at  
24 employees, because we have a collective bargaining  
25 agreement, as either covered by the bargaining agreement



1 or nonbargaining agreement employees, which includes  
2 management.

3 So of the CBA employees, there were eight that  
4 were laid off. Of the non-CBA that were laid off, or  
5 that retired and positions were not filled but perhaps  
6 may have been consolidated with other management that  
7 was remaining company, I believe those were, I think  
8 there were 10 other employees ultimately who either  
9 retired and those positions weren't filled or they were  
10 laid off.

11 Q. Okay. And in what time frame did all these  
12 layoffs or nonfilling of retired employees occur?

13 A. I believe it was since, Your Honor, since  
14 February of this year.

15 Q. Okay. All of those happened just earlier this  
16 year?

17 A. All of those happened just earlier this year.  
18 There were, I think, a couple of positions that may have  
19 been vacated prior to that time period that we opted not  
20 to fill at that point.

21 Q. Okay. Now, also woven throughout the testimony,  
22 and I am sure you will correct me if I am  
23 misrepresenting what is in the testimony, but there are  
24 indications that a number of capital projects were  
25 postponed by various time periods because the company

1 had a lack of available funds to complete those various  
2 capital improvement projects, is that right?

3 A. Your Honor, I think that I would probably  
4 characterize it it wasn't simply a lack of funds, but we  
5 had a short-term line of credit that the Commission has  
6 previously approved and there was currently pending a  
7 new or updated application for short-term credit.

8 And we do borrow to fund construction, but what  
9 we were trying to balance was we can go out and borrow  
10 more money, but there is more interest payments that  
11 have to be made. And we had to balance what we had, the  
12 sort of the financial ability to incur additional debt  
13 along with our depressed earnings, along with the types  
14 of construction projects that we had contemplated  
15 completing both last year and this year and going  
16 forward.

17 Q. Well, as a member of the board, I assume you  
18 would be familiar, but was there any discussion by the  
19 board about whether it was more appropriate to reduce or  
20 eliminate other dividends paid out temporarily as a  
21 means of either not laying employees off or in order to  
22 have more cash on hand to complete needed capital  
23 projects? Were those discussions had in various board  
24 meetings?

25 A. Your Honor, I do not recall that there was a

1 discussion about decreasing dividends and using the  
2 decrease of dividends or the nonused dividends to pay  
3 for construction.

4 Q. Well, every quarter the board meets, right?

5 A. Yes.

6 Q. And every quarter there is, I assume, a  
7 discussion of whether to pay a dividend, and if so, in  
8 what amount, correct?

9 A. That is correct, Your Honor.

10 Q. And during those -- at no time during those  
11 discussions between -- in 2007, 2008 and so far in 2009,  
12 it is your testimony that there was ever any discussion  
13 about whether it would be better for the company for  
14 either a reduction or temporary elimination of the  
15 dividend, given the company's self-professed need for  
16 additional funds, in order to complete capital projects  
17 or for operating income or anything of that sort?

18 A. Well, Your Honor, we have a financial report  
19 every board meeting where we review the company's  
20 financial performance, at least updated as of the  
21 closest time prior to the board meeting, and the board  
22 would review the company's earnings.

23 We would also, in fact in the case of 2008, even  
24 though we had an approved construction budget by the  
25 board from late the previous year for \$18.9 million, the

1 board ultimately reduced the budget for the remaining  
2 part of 2008 and then took a similar action, but even  
3 more dramatic, rated out of \$5 million for 2009.

4           So we did review the company's financial  
5 performance, and I believe there may have been some  
6 discussion about ways or perhaps to reduce costs. I  
7 don't recall specifically if those were done during the  
8 board meeting, during the board meetings themselves,  
9 but...

10           And as an officer of the company, that was one  
11 of the charges I had as president, was to review with my  
12 department heads, with my other vice presidents, what  
13 categories of costs we could reduce costs. And it was a  
14 pretty broad approach.

15           But to answer your question, Your Honor, there  
16 was -- I don't recall a discussion about reducing the  
17 dividends to use that money to fund construction.

18       Q.     Let me -- who are the members of the company's  
19 board of directors?

20       A.     I believe they are part of our annual reports to  
21 the Commission, but I can go through the various board  
22 members. Our chairman of the board is R.H. Nicholson,  
23 Junior. And the other six board members are comprised  
24 of M.L. Whitehead, Frank Lo Guidice, R.W. Nicholson,  
25 R.E. Polenske -- he's the previous president of the

1 company -- R.W. Geake, our vice president/general  
2 counsel, and me.

3 Q. Okay. And are all of these employees -- not  
4 employees -- all these board members, yourself included,  
5 also the only shareholders of the company?

6 A. Well, Your Honor, I am not a shareholder of the  
7 company.

8 Q. Okay.

9 A. I don't believe Mr. Polenske is a shareholder of  
10 the company, nor is Mr. Geake a shareholder. I am not  
11 aware of who all of the other shareholders are. I just  
12 simply don't have that information.

13 Q. Okay. Would it be fair to say that the four  
14 board members that are shareholders control a majority  
15 interest in Arizona Water Company?

16 A. Specifically, Your Honor, the other four  
17 directors, including our chairman, I am not aware of  
18 their particular shareholder interest in the company. I  
19 simply don't know that.

20 What I do know is that when we have our  
21 stockholder meetings, the people that attend our  
22 stockholder meetings do represent the shareholders  
23 through proxy or otherwise. But specifically as to who  
24 the shareholders are, I am not privy to that  
25 information.

1 Q. Okay. Well, at any point in discussions in  
2 which you were involved, either informally or formally  
3 as part of the board meetings, was there discussion  
4 about whether it was appropriate to continue to pay the  
5 same level of dividend during a period in which the  
6 company was reducing substantially its capital budget  
7 and/or reducing the number of personnel that the company  
8 employed?

9 A. Your Honor, I do not recall that there was.  
10 Obviously we are compiling the minutes. I have not  
11 reviewed those minutes over the -- for the past three  
12 years, so I couldn't say whether that definitively did  
13 occur. But I do not recall as we sit here today, I do  
14 not recall that that issue came up in our board  
15 meetings. I just can't recall.

16 Q. And I think we had some testimony earlier, I am  
17 not sure if it was by you or one of the other witnesses,  
18 about the vehicle policy. And as I understand it, the  
19 top five officers or -- officers of the company receive  
20 cars that are paid by the company, is that correct, and  
21 that they are used not only for business use but they  
22 are allowed to be used for personal use, is that  
23 correct?

24 A. Yes, Your Honor, it is. I think Mr. Harris may  
25 have described this, but in any event, they are provided

1 as, I mean if you want to call it, a perk or as part of  
2 a compensation package for the officers of the company,  
3 but we do have company vehicles assigned to us. We use  
4 them to commute to and from home to work, for business  
5 purposes as well.

6 I mean, for example, I chair a water  
7 subcommittee meeting in Casa Grande monthly. So at  
8 least once per month I am driving to Casa Grande for an  
9 early morning meeting, and then prior to coming back and  
10 here. But there is, there is use of that vehicle for  
11 personal purposes, although generally we look at that as  
12 sort of a limited use.

13 Q. What do you mean you look at it as kind of a  
14 limited use? Is there any policy in place that limits  
15 the use of those vehicles for personal usage?

16 A. We have a general company policy, Your Honor,  
17 concerning use of vehicles. And, for example, I don't  
18 know, I am just talking about me personally, I do not  
19 use my car for, for example, family vacations. I use my  
20 own personal vehicle and I use commercial airfare to do  
21 my own vacation type things.

22 But then we do track vehicle usage, and as part  
23 of, I believe as part of our tax reporting for employees  
24 that are authorized or issued a company vehicle, we ask  
25 them to report their personal use of that vehicle on a

1 miles per year basis. And that's used for income tax  
2 purposes.

3 Q. Well, and obviously in evaluating where the  
4 company could cut costs, which you have indicated was  
5 undertaken at various points, I believe, with you and  
6 your other officers of the company, did you consider  
7 that possibly eliminating the use of company cars as a  
8 means of reducing overall operating costs would be one  
9 way to mitigate the decline in operating, available  
10 operating income?

11 A. Your Honor, we look at vehicles themselves as an  
12 expense category.

13 Specific to your point, we did not determine --  
14 I am not sure what level of discussion we had. Those  
15 did not occur in the board meeting. But we looked at  
16 all vehicle costs and what we could do to reduce vehicle  
17 costs. We did not determine that taking away company  
18 vehicles from, say, the officers was something that we  
19 were going to pursue.

20 We did consider not replacing vehicles, even  
21 though it was, we had certain sort of guidelines for  
22 vehicle replacements that we normally would replace  
23 vehicles. In my case, for example, my car, I think one  
24 of the witnesses' counsel described it as a vanilla car  
25 out in the parking lot. It has about 123,000 miles on



1 it. I do not intend on replacing it anytime soon. But  
2 those are the types of decisions that we made not to  
3 replace vehicles that would otherwise have been replaced  
4 well before now, and would have added additional cost to  
5 the company to replace those.

6 We also looked at types of fuel that employees  
7 were purchasing, making sure there was nobody buying a  
8 higher grade fuel. Looking at, for example, car washes,  
9 where people were taking their company car to a full  
10 service car wash, we were discouraging that. Your  
11 Honor, I have changed my own headlights in my company  
12 car at home after work as a means of not bringing it out  
13 to a service station to have them change a headlight  
14 out.

15 So the thought of saving costs is one that we  
16 have hammered to the company over the last year and a  
17 half. And we have asked employees for their ideas how  
18 to save costs, including not only the officers, but  
19 department managers and other employees that we have on  
20 what we could do to reduce costs.

21 Q. And the vehicle costs or the availability of  
22 vehicles also includes full insurance coverage as well  
23 as fuel for the vehicles, and maintenance?

24 A. Your Honor, the vehicles are -- we do not cover  
25 comprehensive insurance on our vehicles. We are

1 self-insured for the vehicles themselves. We have a  
2 pretty good track record of not having accidents that  
3 would damage a vehicle. We do have liability insurance,  
4 that's correct, for the company, on all of our vehicles.

5 Q. But nevertheless you have decided to continue  
6 that policy despite the layoffs and reductions in the  
7 capital budget?

8 A. To maintain corporate, company officers'  
9 vehicles, yes, we have, Your Honor.

10 ACALJ NODES: Okay. Ms. Wood, do you have any  
11 questions for Mr. Garfield?

12 MS. WOOD: Yes, Your Honor, I do. Thank you.

13

14

CROSS-EXAMINATION

15 BY MS. WOOD:

16 Q. Mr. Garfield, RUCO had submitted a DR, I think  
17 it is the eighth data request, asking for information  
18 regarding payments of dividends, both when they are  
19 declared, when they are paid, and the amount. Is that  
20 information that you have available for RUCO?

21 A. I am not familiar with that data request.

22 Q. Okay.

23 A. I believe there was -- I was here when there was  
24 some cross-examination how long after a declaration of a  
25 dividend were dividends paid. And is that the question

1 you are asking?

2 Q. Well, it is not the sum total what the data  
3 request is about, but I will follow up with your counsel  
4 afterwards. But I am interested in the answer to that  
5 question. How long after the dividend is declared is  
6 the amount paid?

7 A. Generally within one week.

8 Q. Within one week. And you said before that the  
9 dividends are paid quarterly?

10 A. That is correct, that's correct.

11 Q. MS. WOOD: Okay. I have been told that the data  
12 request is in the room. So if it is, I would like to  
13 have a chance to review it and submit it if I may.

14 A.

15 THE WITNESS: I am sorry, I am unfamiliar with  
16 that data request.

17 Q. MS. WOOD: That's all right. That's all right.  
18 I understand.

19 ACALJ NODES: You don't prepare all the  
20 responses for the company?

21 THE WITNESS: Your Honor, it is probably better  
22 that I don't.

23 BY MS. WOOD:

24 Q. Have you visited Valley Vista Well No. 13  
25 recently?

1 A. I have not. I cannot attest to that.

2 Q. Well, could you? No, just kidding.

3 A. If you would like me to visit that well site, I  
4 will be more than happy to visit it. It is probably  
5 cooler up there than here.

6 ACALJ NODES: Why don't we -- well, why don't we  
7 just take about a three- or four-minute break here.  
8 Let's take five minutes and we will come back.

9 (A recess ensued from 2:16 p.m. to 2:26 p.m.)

10 ACALJ NODES: I think we are ready to go back on  
11 the record.

12 Ms. Wood, if you will just take that other  
13 microphone out of the stand and turn it on, you can use  
14 that. There is a little switch on the thing.

15 MS. WOOD: You know, Mr. Shapiro, has agreed to  
16 the stipulation of this document being in the record, so  
17 I don't know, unless you folks have questions, whether  
18 or not you want --

19 ACALJ NODES: No, that's your call.

20 MS. WOOD: Okay. Then we will handle it a  
21 different way just because it is --

22 ACALJ NODES: Okay.

23 MS. WOOD: I guess we have this marked as  
24 Exhibit R-15, and if the parties stipulate to its  
25 admission, then we would actually just ask you to admit

1 it. And I will also have to talk to State.

2 And it is okay if I just provide you all with  
3 copies of this tomorrow?

4 ACALJ NODES: Go back to the microphone, if you  
5 would.

6 MS. WOOD: Sorry.

7 ACALJ NODES: Yes. Ms. Wood, I understand you  
8 have a data request that all parties have stipulated to  
9 its admission. And you will be prepared to offer copies  
10 of the document to the Bench and the other parties  
11 tomorrow, correct?

12 MS. WOOD: Yes, Your Honor.

13 ACALJ NODES: And Mr. James, the company is in  
14 agreement that the data requests should come in?

15 MR. JAMES: We have no objection.

16 ACALJ NODES: Mr. Van Cleve.

17 MR. VAN CLEVE: No objection, Your Honor.

18 ACALJ NODES: Okay. R-15 will be admitted  
19 subject to Ms. Wood providing copies for the Bench and  
20 the other parties.

21 (Exhibit No. R-15 was admitted into evidence.)

22 MS. WOOD: I don't have any further questions at  
23 this time, Your Honor.

24 ACALJ NODES: Okay. Mr. Van Cleve.

25 MR. VAN CLEVE: Just a couple questions, Your

1 Honor.

2 CROSS-EXAMINATION

3 BY MR. VAN CLEVE:

4 Q. Good afternoon, Mr. Garfield.

5 A. Good afternoon.

6 Q. You had mentioned earlier that there was a  
7 discussion between you and Judge Nodes about the  
8 shareholders of Arizona Water Company. Do you recall  
9 that discussion?

10 A. Yes, generally.

11 Q. Okay. Are you aware of any corporations that  
12 hold shares of Arizona Water Company?

13 A. I believe the corporate structure of the company  
14 is that all the shares of Arizona Water Company are held  
15 by Utility Investment Company. I believe that's the  
16 structure, but I have not -- I just know that I am not a  
17 shareholder.

18 Q. So you think that all the shares are owned by  
19 Utility Investment?

20 A. I don't know. As we sit here I don't know.

21 Q. Okay. Do you know what percentage of shares  
22 they would hold, or is that along the same, you don't  
23 know that?

24 A. Yes, I don't know if the minutes reflect that of  
25 our board meetings or our stockholder meetings. I just

1 haven't looked at the corporate structure lately to see.

2 Q. Is that information that you would be able to  
3 provide in this proceeding?

4 A. I believe so.

5 Q. Okay. And just one final question. Do you know  
6 where Utility Investment Company, do you know where they  
7 are located?

8 A. I do not know where they are incorporated or,  
9 again, I would have to probably check our records to  
10 find out that.

11 Q. Do you know where their offices are?

12 A. I do not know.

13 Q. Okay.

14 ACALJ NODES: The name of the company is Utility  
15 Investment Company, or you are saying generically a  
16 utility investment company?

17 THE WITNESS: Your Honor, Arizona Water Company,  
18 and we do file affiliated transaction reports with the  
19 Commission, I believe the structure is we are owned by a  
20 company called Utility Investment Company. I believe  
21 that's the correct term. I believe they own all of our  
22 shares. And who owns the shares of that company, I do  
23 not know. So when we say who the shareholders are or  
24 ultimate owners, it goes up to be a nebulous area.

25 ACALJ NODES: The company called Utility

1 Investment Company is a holding company that owns all  
2 the shares, and then the shareholders of Utility  
3 Investment Company are the individuals who receive the  
4 dividends ultimately through Utility Investment Company,  
5 correct?

6 THE WITNESS: That's my understanding, Your  
7 Honor.

8 ACALJ NODES: Okay.

9 BY MR. VAN CLEVE:

10 Q. And along those same lines, do you know if the  
11 dividends, then, that Arizona Water pays, would they  
12 then be paid to this Utility Investment Company?

13 A. Mr. Van Cleve, I would probably have to make  
14 sure. We do make our quarterly payments. There is a  
15 name on the payments, or wire transfers or whatever. So  
16 if you want to know specifically who the payee is on  
17 those -- or I assume it goes to Utility Investment  
18 Company.

19 Q. And then finally, are any of the board members  
20 that are members of the board of Arizona Water Company  
21 also board members of this Utility Investment Company,  
22 if you know?

23 A. I believe so, but I don't know. I mean there  
24 are other affiliates that we do not conduct regular  
25 business with. Whether they share, you know, whether



1 they are on our board or whether they are on other  
2 boards, I presume that may be the case. They are not  
3 necessarily all the same. There may be other board  
4 members of each where either the holding company or  
5 other affiliates.

6 Q. Are you on the board of both of those companies?

7 A. I am only on the board of Arizona Water Company.

8 MR. VAN CLEVE: Okay. No further questions.

9 ACALJ NODES: Chairman Mayes, do you have some  
10 questions?

11 CHMN. MAYES: Thank you, Your Honor.

12

13 EXAMINATION

14 BY CHMN. MAYES:

15 Q. Good afternoon, Mr. Garfield.

16 A. Good afternoon, Madam Chairman.

17 Q. Just a couple questions following up on  
18 Mr. Van Cleve.

19 You say you don't know -- well, in answer to, I  
20 think, the Judge's question, you said, you named the  
21 several shareholders of, I guess, the people that you  
22 named, including R.H. Nicholson, Mr. Whitehead,  
23 R.W. Nicholson, and there was one other person I missed.

24 A. Frank Lo Guidice.

25 Q. Frank -- say that again.

1 A. Frank Lo Guidice.

2 Q. Lo Guidice, okay.

3 So those four people are shareholders of Arizona  
4 Water Company, or are they?

5 A. Chairman Mayes, I don't know of our other board  
6 members. I know that myself, Mr. Geake, and  
7 Mr. Polenske, I know that we do not hold shares,  
8 ownership shares of any of the utilities.

9 The other board members, I do not know whether  
10 any or all of them actually own shares in Utility  
11 Investment Company or any of the affiliates. I just  
12 simply don't know the answer to that. I suspect our  
13 chairman has shares of the company. I suspect  
14 W.R. Nicholson, who is a son of R.H. Nicholson, Junior,  
15 is probably a shareholder. And those are just -- that's  
16 just my intuition. It is not based on any information  
17 that is known to me.

18 Q. Okay. And so when dividends are paid, we  
19 suspect, you suspect that dividends are paid to those  
20 four guys, and in addition to that, that there is  
21 dividends paid to UIC?

22 A. Madam Chair, I believe, and again, I don't make  
23 the actual payment, we have a board resolution. It  
24 addresses who the payment, when the payment is to be  
25 made, and I do not know specifically, I believe it goes

1 to the Utility Investment Company. That is my  
2 understanding. Beyond that, where any disbursement  
3 goes, who the shareholders are, I simply don't know.

4 Q. Why is that, if you are a board member? I mean,  
5 you strike me as a really smart guy and you are always  
6 on top of things, in my experience. So why don't you  
7 know how dividends are being paid on a board of  
8 directors you sit on? Is that some sort of top secret  
9 thing?

10 A. No.

11 Q. Or is it just a gentlemen's agreement? I take  
12 it these are all men, so this is a gentlemen's agreement  
13 that you are not going to tell each other?

14 A. Madam Chair, I just -- I have a certain belief.  
15 I am not actually the one who causes the check or the  
16 wire transfer to be made.

17 Q. Who does that, again?

18 A. Our vice president and treasurer, Joe Harris,  
19 would oversee the payment of dividends.

20 Q. But it is not discussed at the board?

21 A. It is a board resolution. The board will  
22 consider and pass a resolution to make a dividend  
23 payment.

24 Q. To some undisclosed individuals?

25 A. I believe it is the Utility Investment Company.

1 I would have to go back and look at the minutes. That's  
2 my understanding. I don't actually handle the transfer  
3 of that, but I believe it is to Utility Investment  
4 Company that that dividend payment is made.

5 Q. So it is not necessarily to Nicholson,  
6 Nicholson, Whitehead and Lo Guidice?

7 A. Lo Guidice.

8 Q. Lo Guidice?

9 A. Lo Guidice.

10 Q. It is not to them, it is to this parent company?

11 A. Other company, that's correct.

12 Q. Of which they are, we suspect, also  
13 shareholders?

14 A. Utility Investment Company, I assume, has  
15 stockholders or shareholders of Utility Investment  
16 Company. But again, ultimately who the stockholders are  
17 or shareholders are I don't know. The stockholder  
18 meeting, for example, Madam Chair, is attended by the  
19 company's officers every year. And it is a tightly held  
20 stock.

21 Q. Yes.

22 A. Mostly, I would consider it a family held stock.  
23 I am not family, therefore I probably hold no stock. I  
24 am not a member of this family, I guess, family of water  
25 utilities, perhaps. But I see some of the family

1 members there. They attend the annual stockholder  
2 meeting. I just don't know who, who holds what shares.  
3 I see grandsons, granddaughters, uncles.

4 Q. Must be neat to have a water company in the  
5 family, huh?

6 Well, so when you talk about stockholders, you  
7 are talking about the stockholders of Arizona Water or  
8 the stockholders of UFI or --

9 A. UIC.

10 Q. UIC, sorry. I am thinking of something else.  
11 Of UIC.

12 A. Because of my belief, and, again, I do attend  
13 the board meetings and I -- Madam Chair, I appreciate  
14 the compliment that you perceive me to be a fairly smart  
15 guy, perhaps not smart enough to ask certain questions,  
16 perhaps, but my understanding of the corporate structure  
17 of the organizational structure is that Arizona Water  
18 Company is wholly owned by Utility Investment Company.  
19 And an affiliate of ours called San Gabriel Valley Water  
20 Company is also, I believe, wholly owned by Utility  
21 Investment Company.

22 Q. That was my next question. How many water  
23 companies are in the constellation of water companies  
24 owned by the UIC?

25 A. Arizona Water Company and San Gabriel Valley

1 Water Company.

2 Q. So it is basically these two sets of systems?

3 A. Correct.

4 Q. How big is the San Gabriel Water Company?

5 A. I believe we are around 83,000 customers, and I  
6 believe they are in the mid 90,000 customers, so they  
7 are similar size although their operation, Chairman  
8 Mayes, is effectively concentrated over two systems,  
9 where ours are multiple, 20 plus systems.

10 Q. And that was my impression of Arizona Water  
11 Company, I wasn't aware of this parent company  
12 arrangement, but that it was kind of a family owned  
13 business, or that it was, at the very least, closely  
14 held and somewhat, you know, owned by one family. Would  
15 that be accurate?

16 A. That would be my understanding of the structure.  
17 And Madam Chair, if I may, not to go too much back in  
18 history, but in the early '70s -- and this is going way  
19 back and I am sorry for that -- the company was for sale  
20 then, and the investors we had then was an investment,  
21 an insurance investment group. They bought Arizona  
22 Water Company stock. They were the stockholders at that  
23 time. They weren't in the water business, they were in  
24 the investment business. And they simply invested their  
25 money in this utility and they were simply selling us

1 off one system at a time.

2 And that's how -- for example, Community Water  
3 of Green Valley used to be one of our systems. That was  
4 sold as part of that, I will call, black era of Arizona  
5 Water Company, where systems were being sold one after  
6 another. Mammoth was one. And there were probably a  
7 number of cities who probably would kick themselves  
8 today that they didn't opt to purchase at that time.

9 But when the current stockholders of the company  
10 bought Arizona Water Company, that was a very  
11 stabilizing effect on the company.

12 Q. When the Nicholsons did?

13 A. Yes. That was in the late '70s.

14 Q. Okay. And then, you know, just to sort of touch  
15 on this dividend issue, it strikes me -- okay. So you  
16 did freeze the dividend at the current level a little  
17 over \$1 million at what point in time? Two and a half  
18 years ago?

19 A. Yes, Madam Chair. In part of looking at the  
20 data response gave me an opportunity to look at the  
21 actual numbers. And I guess I never should go exactly  
22 by memory unless you have a photographic memory. But as  
23 I recall, looking at the data response in 2005, the  
24 dividend was approximately 947,000. I believe that's  
25 what the data response shows. And I would believe those

1 numbers to be accurate. And then subsequent to that  
2 they rose, I believe, to 1,030,000, approximately.

3 Q. 72, one million 72?

4 A. Well, it went up to a million 72 in  
5 approximately April of 2007 with this second, with the  
6 quarterly payment that was made on or about probably  
7 April 2007. I believe that's where it is, it has been  
8 frozen since then.

9 Q. Okay. So it sounds like there wasn't any real  
10 discussion, correct me if I am wrong, during this time  
11 of retrenchment in the company when you were having to  
12 lay people off and eliminate jobs and cut costs, there  
13 was no real discussion of paring down that dividend?

14 A. Specifically, Madam Chair, I don't recall that  
15 discussion. We discussed cost cutting, the need to cut  
16 cost.

17 Q. Nobody brought up the dividend, though, huh?

18 A. Well, I am not a shareholder, and --

19 Q. But you are on the board?

20 A. I am on the board and I have a duty as a board  
21 member to represent the interests of the shareholders.  
22 And I did not, I would not have supported a reduction in  
23 dividends.

24 Q. Why not?

25 And let me ask you this question. It is not



1 like this is a publicly traded company. It is a  
2 privately held company, closely held, that, you know, it  
3 has been, it is held by a family, you know. It is in  
4 the family. You are not worried about having to go out  
5 and get additional investors. You are not having to  
6 worry about a plunge in your stock price if you lower  
7 your dividend. I assume you are not having to worry  
8 about credit rating agencies.

9 Are you rated by the ratings agencies?

10 A. We are not, Chairman Mayes.

11 Q. All right. So you don't have the S&P problem.  
12 You don't have an FFO to debt problem with the ratings  
13 agencies. What is the harm in cutting your dividend  
14 then for some temporary period of time while everybody  
15 is going through this pain associated with the  
16 recession?

17 A. Madam Chair, if I may, I guess the sacrifices  
18 that our shareholders made began well before the  
19 recession began. We found ourselves investing in about  
20 \$75 million of additional rate base without additional  
21 revenues to support that, with the exception of the  
22 ACRMs, which were great ly appreciated. The returns  
23 were driven primarily by the level of investment and the  
24 debt service that we had to pay on that investment,  
25 including primarily long-term debt that we have in front

1 of us today which is approximately \$75 million worth of  
2 long-term debt.

3 And so we were already, the shareholders were  
4 already seeing a tremendous drop in their earnings. And  
5 we were not able to issue any more long-term debt  
6 because we had constructed so much plant in rate base.  
7 Other than what we may incur under short-term debt, we  
8 were not in a position to further advance that. And  
9 shareholders who are, who are equity funders in the  
10 company, I believe, have an expectation of some return  
11 on their investment.

12 Q. Did they get no return on their investment  
13 during that time period in the last two years?

14 A. Well, the dividends certainly, Madam Chair, were  
15 made to the stockholders of the company.

16 Q. What was that return on investment, do you know?

17 A. Specifically the equity portion of the company  
18 is approximately \$70 million. So if you are to look  
19 nominally at the \$4 million or so dividend payments in  
20 my quick noncalculating head here, I would calculate  
21 that around 6 percent or nominally thereabouts.

22 Q. Okay.

23 A. Below the cost of debt, but...

24 Q. Probably above what a lot of stocks were getting  
25 during that time period, right? That is a pretty safe

1 bet when stocks were plunging, people were losing money  
2 if they were going to put their money in the stock  
3 market. Where would you rather have it?

4 A. I am not sure, Madam Chair, where I would want  
5 to have my money right now. I am not even sure that  
6 banks are necessarily risk free at this point.

7 Q. Well, a utility gets pretty close, doesn't it?

8 A. Based on the last probably four or five years  
9 and plummeting returns, I wouldn't characterize that as  
10 risk free.

11 Q. Okay. Is there any way to get any more clarity  
12 on who the board members are, the structure of these  
13 companies, and who the board members are and who the  
14 major investors are confidentially, if that's something  
15 that can't be provided publicly?

16 A. Your Honor, I am on the board of Arizona Water  
17 Company. Obviously, we can talk to the affiliates and  
18 see if they would be willing to provide the information.  
19 And I know we do provide corporate structures through  
20 some of our affiliated transactions, and we will review  
21 to the extent that information is available and look at  
22 what we could provide to you either confidentially or  
23 simply openly. I don't know at this point. I can look  
24 at that, be happy to.

25 Q. Do you know how many total shareholders there

1 are?

2 A. If you are asking me, Madam Chair, how many  
3 shares of stock are for Arizona Water Company --

4 Q. No, how many total individual shareholders there  
5 are.

6 A. I simply wouldn't know. I can tell you that I  
7 attend the stockholder meeting, which has stockholders  
8 of the, of whatever entities have stock. And I can  
9 count the heads in the room. Whether they represent --

10 Q. Well, how many are there?

11 A. I can tell you.

12 Q. How big a room is it?

13 A. The room is probably attended by probably  
14 nominally 40 people, including officers and directors of  
15 the different companies involved.

16 Q. So that would be a UIC meeting?

17 A. UIC, San Gabriel Valley. Obviously there is  
18 stockholders of those various companies.

19 Q. Okay. Do you know how the dividend is  
20 determined or calculated, how it is distributed as  
21 between those stockholders?

22 A. Madam Chair, as far as the dividend for the  
23 company is there a formula? I am not aware of any  
24 formula. There is generally a proposal made. Our  
25 chairman typically would provide a proposed resolution

1 for the board to consider for the dividend payment that  
2 obviously the board would address.

3 Q. Okay. You said that you thought the company had  
4 experienced pain beginning before the recession because  
5 they had had to spend, I think you said, \$75 million on  
6 infrastructure?

7 A. Madam Chair, I believe it is approximately  
8 75 million. And in this docket we did have -- and I  
9 know you requested an updated rate of return granted to  
10 the company, but our returns did begin to drop as early  
11 as, I believe, 2004 or '5, even after some of the last  
12 rate decisions.

13 And in the last couple of years, 2007 in  
14 particular, because that was going to be a test year, we  
15 were coming before the Commission at that point, that  
16 there was a real need to get the plant completed and  
17 closed for the purposes of the rate case. And that was,  
18 you know, the closing of that plant was a significant  
19 amount of plant. But I believe it was about 75 million.

20 Q. And where did that money come from? Was that  
21 debt? Was that equity? Was it financed? Did they  
22 provide cash?

23 A. Madam Chair, it was primarily debt. And the  
24 preference of the company is to also fund through  
25 retained earnings. But I can -- I know the level of

1 long-term debt increased from, my belief, \$15 million,  
2 subject to check, about five years ago to 75 million  
3 today of long-term debt. So a significant amount of  
4 that additional plant or rate base was funded using  
5 long-term debt.

6 ACALJ NODES: I have a question on that topic.

7 CHMN. MAYES: Sure.

8 ACALJ NODES: Just quickly on that topic.

9 I assume that most of that plant during those  
10 high growth periods were due to additional customers  
11 being added to the system, the investment necessary,  
12 would that be accurate?

13 THE WITNESS: Your Honor, not in total. Of the  
14 75 million, I believe the number is approximately  
15 34 million for arsenic treatment. So that leaves a net  
16 increase of about 41 million in rate base.

17 Now, keep in mind some of the plant had retired  
18 value during that time, so the actual amount of rate  
19 base plant added may have been greater than that. But  
20 it wasn't all related to customer growth. Certainly  
21 there was a component of that as it relates to supply  
22 and storage.

23 But as I have testified here, the company's  
24 budget was dominated by arsenic treatment for three  
25 years. And we were adding a construction budget level

1 at about \$10 million prior to the arsenic projects that  
2 we had to complete. We pared that back to approximately  
3 \$5 million each year for three years, so -- and that  
4 predated, Your Honor, a certain amount of that growth,  
5 '04, '05. '06 was a big growth year. '07 slowed and  
6 '08 pulled back slightly as far as customers.

7 But to answer your question, yes, we did have to  
8 add more plant to service new customers, that is  
9 correct, Your Honor.

10 ACALJ NODES: Well, in at least a large portion  
11 of that \$34 million arsenic capital investment should  
12 have been recovered through the ACRM mechanisms,  
13 correct?

14 THE WITNESS: Correct. Your Honor, I believe  
15 Mr. Harris testified that we were targeting or we had  
16 expected, I believe, \$5.2 million recovery under the  
17 ACRMs, and I believe we recovered in the neighborhood of  
18 3.9 million or so. So part of that has to do with the  
19 decreased sales that we experienced over the last two  
20 years.

21 So that didn't help sort of prop up some of the  
22 lack of earnings even with the ACRMs. We didn't quite  
23 achieve what we were hoping to achieve with the ACRMs.

24 ACALJ NODES: Okay. And then --

25 THE WITNESS: Better with definitely. I am

1     sorry, Your Honor.

2             ACALJ NODES:   I am sorry.   But given that a lot  
3     of the plant was added to support growth on the system,  
4     wasn't there also a lot of CIAC and AIAC that was  
5     received to accommodate that growth?

6             THE WITNESS:   Your Honor, when I talked about  
7     added rate base, I was talking about what the -- what  
8     actually the company actually invested or borrowed to  
9     fund on its own.   The added plant was in excess of that  
10    plant as it relates to new developments, services and  
11    mains and fire hydrants and so forth.

12            ACALJ NODES:   Okay.   Sorry for the interruption.

13            CHMN. MAYES:   That's okay.

14   BY CHMN. MAYES:

15       Q.     So, well, let me -- are there any plans in the  
16    near future or any plans at all to increase your  
17    dividend?

18       A.     I am not aware of any such plans.   I know they  
19    have been frozen for about the last two and a half  
20    years.

21       Q.     When will you be made aware of such plans if you  
22    are not aware of them and they are in the works?

23       A.     Oh, our September board meeting is coming up the  
24    end of September.   My intuition is I am not expecting an  
25    increase in dividends to be proposed.



1 Q. So you wouldn't expect an increase in dividends  
2 immediately following this rate case?

3 A. I do not know, as we get into March or June of  
4 next year, depending upon the outcome of this  
5 proceeding, I don't know whether the board would look at  
6 increasing the dividend or not. I know where the  
7 company has increased investment. I think that probably  
8 the stockholders probably have some expectation of  
9 increased dividends. But our equity funded plant has  
10 been relatively stable these last few years.

11 Q. Why, if it is being financed with debt, why  
12 would they have an expectation of an immediate payoff  
13 after a rate case?

14 A. I don't know that they were earning a return on  
15 even the equity funded plant. I don't think we are now.  
16 Because we are, if you look at the return, the overall  
17 return even that's docketed in this case, it is under  
18 5 percent.

19 So, you know, would that, if we are earning say,  
20 heaven forbid, a 10 percent return, would that generate  
21 additional dividends? I can look back at history,  
22 Chairman Mayes, to see whether there were big changes in  
23 dividends. And I do not believe there have been.

24 Q. Okay. Let me move to the car issue real  
25 quickly. I was a little bit surprised and a little,

1 just put it charitably, surprised to learn you all had,  
2 you know, ratepayer funded cars that you were tooling  
3 around in on your private time. I have never heard of  
4 that before. I have never seen any utility company come  
5 in here and admit on the stand or have to admit on the  
6 stand that they were using ratepayer financed vehicles  
7 for personal purposes.

8 So can you explain to this Commission how in the  
9 world that came to pass and why it is defensible in this  
10 economy and given the pain that people are suffering in  
11 this economy?

12 A. Madam Chair --

13 Q. I mean really, am I right, when these are  
14 ratepayer financed cars and you guys were using them for  
15 personal reasons, in addition to work? Is that right?

16 A. I understand, Madam Chair.

17 Q. Yes or no.

18 A. Yes or no --

19 Q. Is it true?

20 A. Is it true that there is some limited personal  
21 use of --

22 Q. Was there any personal use of those cars?

23 A. Yes.

24 Q. Okay. Well, like what? Give me some examples.

25 A. I can only speak for myself.

1 Q. Or others, I am sure you know of others.

2 A. As far as personal, I don't really have direct  
3 information on what others may or may not be using their  
4 company car for personal --

5 Q. They drive them to work and back?

6 A. I can say, Madam Chair, that I drive my vehicle  
7 to and from work every day.

8 Q. Okay. Do you drive it to the grocery store?

9 A. On the way home from work.

10 Q. Never use it for any other reason?

11 A. I used to golf about 15, 20 years ago. I really  
12 don't golf anymore.

13 If you are asking me the types of things that I  
14 would use my company car for, I believe earlier I  
15 testified that generally what I do is I use my personal  
16 vehicle on the weekends to do my personal business.

17 Q. Okay. Well, is it possible that other employees  
18 or other managers -- how many of these company cars are  
19 there? I apologize, I know this was discussed.

20 A. I don't know, Madam Chair. I don't know the  
21 actual number of company vehicles out there. I looked  
22 at the fuel, you know, for the vehicles when we looked  
23 at cutting costs on vehicles, so forth. I did review  
24 the number of vehicles.

25 But the employees that would have a company

1 vehicle go from meter readers up to the service men,  
2 service women to the senior service men, service women,  
3 treatment plant operators. Our local division manager  
4 and operations or superintendents would have a company  
5 vehicle. Our office staff, the customer service reps  
6 would not generally. Our laborers generally would not,  
7 because they are generally working with somebody else.  
8 In our Phoenix office, for example we have the officers  
9 who drive a company car and one person who drives a pool  
10 car at the office.

11 Q. Well, Mr. Garfield, and I don't want to belabor  
12 this point, but of all the people to give a company car,  
13 why the officers? I mean, what do you make? What do  
14 you make?

15 A. As an annual salary?

16 Q. Yes.

17 A. Fair game. 226,000.

18 Q. Do you need a car?

19 A. I believe it is part of the compensation  
20 package. Do I need --

21 Q. The ratepayers should be giving you a car? You  
22 make \$220,000 and you want the ratepayers to pitch in a  
23 car? Really?

24 A. Madam Chair, I don't think it is unusual for a  
25 company executive to have --

1 Q. Utility executive. Do you think APS executives  
2 are running around in ratepayer funded cars?

3 A. I do not know.

4 Q. Do you think they are paid well enough to buy  
5 their own?

6 A. Madam Chair, if I had to drive my own car, I  
7 would.

8 Q. Well, I think you probably have your own car it  
9 sounds like.

10 A. I have my own car at home, yes.

11 Q. I just -- obviously it is a question we will  
12 have to ask other utility companies. I just am pretty  
13 sure it is not happening widely. Do you think it  
14 happens widely? Is this something we need to look at at  
15 other companies?

16 A. Madam Chair, I wouldn't be one to point the  
17 fingers at other companies. But I wouldn't believe it  
18 to be unheard of or outside some level of normality that  
19 some company executives with utilities do drive a  
20 company vehicle.

21 Q. And I don't, and I certainly don't mean to make  
22 this personal and I don't mean to put you on the spot,  
23 but, you know, these are extraordinary economic times.  
24 And I think that, you know, I represent 7 million people  
25 in Arizona, and I am pretty sure they wouldn't be very

1 happy to know that their money was going to paying for  
2 utility executives to have a car. So whatever we do in  
3 this case, that has got to come to an end.

4 Would you object to that? I mean, you don't  
5 really think we should keep that in rate base, do you,  
6 or continue to finance that?

7 A. Madam Chair, I know there are -- there is the  
8 business aspect of these vehicles as well. And not  
9 having a car wouldn't remove all expenses related to the  
10 company's business, reimbursement for mileage, for  
11 example.

12 Q. Who does this, really? I mean I make \$79,000 a  
13 year and I drive my own car to and from work. I  
14 never -- rarely take a company, a state car, unless I am  
15 going out of town, because it is actually cheaper than  
16 to be reimbursed for use of my own car. I don't know  
17 too many private companies that do that. So I don't  
18 understand the argument for a ratepayer financed utility  
19 doing it.

20 I mean, do you know what I am saying? I mean,  
21 you are in the private sector, technically, although you  
22 are regulated, right?

23 A. Right.

24 Q. So I am trying to understand what distinguishes  
25 you from other companies in terms of the need to cut

1 your costs. And this would seem a very simple way to do  
2 that. It may not, it may not result in huge savings,  
3 but at least it is something.

4 A. Madam Chair, I do understand the point that you  
5 are making on that.

6 Q. Okay. By the way, I know of at least one state  
7 agency that has -- I was unaware that there were still  
8 state agencies that had cars available for going back  
9 and forth to work, but the one I am aware of has put an  
10 end to that practice because of this economy, and those  
11 cars have all been taken away. So no one who doesn't  
12 need the car for their state business can drive the car  
13 to and from work.

14 Let me ask you, just changing subjects  
15 completely, and I apologize for not being here yesterday  
16 at least, were the issues of best management practices  
17 discussed by any witness?

18 A. Madam Chair, I do not believe that they were.

19 Q. Okay. Why not? I asked that they be. Can you  
20 talk about it? Can you talk to me about it right now?

21 A. About best management practices?

22 Q. BMPs, how much, how many of these BMPs in each  
23 of these systems should be adopted in this case and  
24 should we consider an adjuster mechanism to encourage  
25 you to do it?

1       A.       Madam Chair, to the extent that we have systems  
2       that are within AMAs and the Department of Water  
3       Resources prescribes certain BMPs, and I understand the  
4       Commission may want or require more additional BMPs from  
5       Arizona Water and other utilities that come before the  
6       Commission, I guess the only thing I would ask is that  
7       whatever the Commission may decide, that it would look  
8       at the BMPs that the company might be required to  
9       implement and to at least have an ability to recover the  
10      cost of implementing certain BMPs, and I would not be  
11      opposed to that.

12               I think there are -- I was on the stakeholder  
13      committee as well as others within the company --

14      Q.       I know.

15      A.       -- and it was difficult with some of the other  
16      entities who attended who had no interest in that  
17      program to come out of there with an effective program.

18               Initially the department wanted to require  
19      tiered rates as part of that BMP eligibility, and I  
20      think we all agree that tiered rates have an -- they  
21      have an appropriate place in rate setting. Even Ross  
22      Abbott's witness today said that properly designed rates  
23      would work well.

24               But there was quite a bit of, when you get into  
25      the stakeholder group there is a lot of, I wouldn't say



1 a watering down, but there was a lot of turf protection  
2 by entities that weren't even part of what was to be  
3 regulated by the program.

4 But we looked at the category of BMPs and we  
5 tried to identify how would you apply those in your  
6 systems. For example, and I can use Global or Santa  
7 Cruz Water, but if you are in an area where you have  
8 15,000 new homes of five years old or newer, you are  
9 probably not going to implement a toilet rebate program;  
10 it is probably not something that would achieve anything  
11 there. It is not to say that there aren't some BMPs  
12 that would benefit and would advance conservation in  
13 those areas. So obviously as a regulated entity we want  
14 to not be overly regulated.

15 But I understand the need to have additional  
16 BMPs. And I am not sure if that's something that staff  
17 would work with the Commission on what those appropriate  
18 BMPs or the number would be, but we would not be opposed  
19 to that as long as there is some ability to recover some  
20 of that cost.

21 CHMN. MAYES: Okay. Have Staff witnesses not  
22 gone yet?

23 MR. VAN CLEVE: No.

24 CHMN. MAYES: No? Okay. So maybe that's  
25 something we could discuss with Staff and work out,

1 because I would like that to be a part of this case, if  
2 not part of this case, we could require the company to  
3 file after the case and then if we are going to address  
4 an adjuster mechanism, I think we have to do it in this  
5 case.

6 THE WITNESS: Madam Chair, if I may. There was  
7 a suggestion of perhaps having sort of a bifurcated  
8 aspect of this proceeding. And I am trying to recall if  
9 that was simply related to the conservation adjustment  
10 or something like that. But perhaps that might be the  
11 appropriate way to bring those in, you know, immediately  
12 following something that would be, if time doesn't  
13 permit now to get to that point.

14 CHMN. MAYES: This is something different from  
15 your proposed conservation adjustment.

16 MR. JAMES: May I make a suggestion? That was  
17 actually what we did, you may recall, with the arsenic  
18 recovery mechanism, because we had to get it approved in  
19 the context of a general rate case, so it is tied to a  
20 fair value finding, et cetera.

21 So what we ended up doing in the northern group  
22 case was having a second phase, so the case itself  
23 wouldn't be delayed. But we had a second phase in which  
24 we worked out the details of the ACRM. And we can  
25 certainly do something like that, Chairman Mayes, in

1 this case.

2 CHMN. MAYES: Okay.

3 BY CHMN. MAYES:

4 Q. And can you prepare a recommendation for the  
5 Commission with regard to which BMPs would be most  
6 appropriate for your various systems in this case?

7 A. Madam Chair, I think that would be exactly what  
8 we would like to do.

9 Q. Understanding that this Commission is more  
10 interested in seeing you go beyond the DWR requirements.

11 A. I understand, Madam Chair.

12 Q. Okay. And you need to meet those DWR  
13 requirements in 2010 anyway, don't you? Is that when it  
14 triggers?

15 A. Madam Chair, we have already, as part of our  
16 longstanding, I will call it, disagreement with the  
17 Department of Water Resources, we did enter into a  
18 settlement which adopted effectively the BMPs that would  
19 otherwise be required under the BMP program. And we  
20 have already filed, I believe it was due in July of this  
21 year, the provider profiles for actually full enrollment  
22 into the BMP program.

23 And I would just ask that, to the extent that  
24 the company is going to be looking to implement certain  
25 BMPs, we would like to go through each system and see

1 which ones make sense at each system.

2 And some of them are not as cost effective. For  
3 example, I don't see an effective conservation program,  
4 BMP program, including providing steam washers and  
5 dryers -- washers, anyway -- \$1,500 a pop for the  
6 average homeowner, but some extension of that possibly  
7 could be in that. But when you look at between the list  
8 of things you can do and will achieve some savings, some  
9 of them are somewhat nonmonetary.

10 For example, I talked with the cities about  
11 adopting certain ordinances in their cities, especially  
12 as we look at growth to return, that there would be a  
13 nondevelopment of certain water uses. That's, I think,  
14 the first -- once uses are established, it is hard to  
15 get people to change their habits. And I think  
16 following and pursuing that with the cities and  
17 adopting, and perhaps even with our own tariffs, of  
18 course we lack police powers, but having the city sort  
19 of dovetail in with something like that I think would be  
20 very effective.

21 Q. What would be an example of that? Xeriscape or  
22 what?

23 A. Well, for example, it could mean, it could mean  
24 requiring xeriscape. It could mean minimizing turf --

25 Q. Right.

1       A.       -- within areas. It could mean requiring, you  
2 know, pools not beyond a certain size, or it could  
3 mean -- I mean, for example, at the house I live in, I  
4 have no grass. I have no intention of mowing a lawn. I  
5 came out from Illinois. I mowed my share of lawns over  
6 the years, and I don't want that. But I know that even  
7 on xeriscape, people develop an irrigation system to  
8 establish desert type plants that at some point in time  
9 should be able for the most part take care of  
10 themselves. But I don't think that is happening.

11               So I think part of it is education. Part of it  
12 is working with the cities and the builders to come up  
13 with effective water saving design in their homes.

14       Q.       Does the DWR BMP program have a turf buy-back  
15 provision like they have in Nevada? Do you know what I  
16 am talking about?

17       A.       I do. And I have heard the person from Nevada  
18 talk a number of times about their program, which was a  
19 very aggressive program of turf buy-back. And I am not  
20 sure if that's one of the BMPs, but it wouldn't surprise  
21 me that it wouldn't be one of the BMPs.

22       Q.       Okay. Is that something we could look at in  
23 this case?

24       A.       I think as long as there is an availability to  
25 recover in some way the cost of that, I think there

1 would.

2 Q. Right, because I mean there is a cost --

3 A. Definitely.

4 Q. -- paying people to take out of their lawn,  
5 which is essentially --

6 A. I believe it was, Madam Chair, a dollar a square  
7 foot, somewhere thereabouts. For me, I get zero.

8 Q. I would get a few feet. Sadly, I do have a  
9 lawn, which -- anyway, I am going to get rid of that  
10 thing one of these days.

11 One of the things they do really well in Nevada,  
12 I think, or they have done well is they have a very  
13 aggressive statewide advertising campaign, conservation  
14 advertising campaign with some very, very funny and  
15 effective ads. I don't know if you know what I am  
16 referring to.

17 A. Not specifically, Madam Chair. But if I may, I  
18 know that there are various organizations within the  
19 state that do an excellent job. I know SRP is very  
20 active in that as well, as well as some of the bigger  
21 cities. And I think the company could partner with some  
22 of them.

23 Sometimes there is a barrier between private and  
24 public entities as far as that kind of participation,  
25 but especially when you have small utilities that don't

1 have the expertise to sort of develop a water education  
2 campaign program. So I think with what is out there, I  
3 think there is a great opportunity to do more of that.

4 Q. Right. And, you know, I haven't figured out how  
5 we do it either, because we have 350 water companies and  
6 not all of you are here in front of us at the same time  
7 in a rate case. But one of the BMPs is outreach and  
8 education, isn't it?

9 A. Definitely, especially with children and  
10 schools. I mean I am 55, not to state my age for the  
11 record, but I think I can change. But I think it is  
12 better to educate all along the process. You can't have  
13 a message at one level that water use is fine, and  
14 another message that water use is not fine. You have  
15 got to have a consistent message. And I think that sort  
16 of lends itself to having collaboration between  
17 educators and so forth to do that.

18 Q. And I think that, too. And it strikes me, and  
19 maybe you can help me think about this, but how, how can  
20 we accomplish an effective unified statewide  
21 conservation advertising and outreach campaign?

22 A. That's probably a million dollar question,  
23 because --

24 Q. I know. I agree. I think it is going to cost a  
25 lot of money. And you only have 80,000 customers, and

1 we have 350 different companies and we have a lot of  
2 different cities. But do you think it is something that  
3 could be possible? And I say this because I think it is  
4 hard for -- we are going to end up with 350 essentially  
5 different education and outreach efforts at the water  
6 companies, and that makes no sense to me. I don't think  
7 it is going to be effective.

8 A. I agree.

9 Q. I think it is going to end up being a waste of  
10 money. So have you given that any thought?

11 A. I have, Madam Chair. I know we have been  
12 approached by other organizations to participate with  
13 their programs. And we haven't done a lot with that.  
14 And we do participate like with WET, for example. We  
15 have people who go out and meet with teachers and  
16 students on, you know, the principles of conserving  
17 water and using water wisely. But some of the major  
18 campaigns, you know, Water, Use It Wisely, and EPA's  
19 Water-Wise Program, I believe -- anyway, I believe  
20 that's the name of the program -- I think there is an  
21 opportunity to do more of that. And you can't create  
22 your own program. It is just not going to be cost  
23 effective or it won't be effective. If somebody has a  
24 small budget it is probably not going to be Hollywood  
25 production.



1 Q. And not going to be doing television advertising  
2 or even radio necessarily.

3 A. I am not sure, Madam Chairman, how I would look  
4 on television.

5 Q. I didn't mean you personally, Mr. Garfield.

6 A. I would wear the water suit if I had to, I  
7 suppose.

8 CHMN. MAYES: Okay. Anyway, if you can give  
9 that some more thought, and I am thinking about it, too.  
10 I mean it is a tough issue. I am on a panel with DEQ  
11 and DWR to look at water reuse, recycling issues, and  
12 hopefully this will be something that will come up.  
13 Okay.

14 Thank you, Your Honor.

15 Thank you, Mr. Garfield.

16 THE WITNESS: Thank you, Madam Chair.

17 ACALJ NODES: Does anybody else have any  
18 questions before we go to redirect with Mr. James?

19 (No response.)

20 ACALJ NODES: Okay. Mr. James, any redirect?

21 MR. JAMES: Would you mind if we took a short  
22 break at this time?

23 ACALJ NODES: No that's fine. We will take our  
24 afternoon break, 10-minute break.

25 MR. JAMES: Thank you.

1 (A recess ensued from 3:20 p.m. to 3:33 p.m.)

2 ACALJ NODES: Okay. Back on the record.

3 Mr. James, redirect?

4 MR. JAMES: Well, Your Honor, I had about an  
5 hour of redirect but Mr. Garfield pleaded to get off of  
6 the stand. So I have no questions.

7 ACALJ NODES: Okay. All right. Anybody else  
8 have any more questions?

9 MS. WOOD: No, Your Honor.

10 ACALJ NODES: Okay, thank you.

11 Mr. Garfield, thank you again for your  
12 testimony, and you are excused.

13 THE WITNESS: Thank you, Your Honor.

14 ACALJ NODES: Okay. Let me -- before we put  
15 Mr. Moore on the stand, how much cross? Let me ask  
16 Staff first. I would guess you don't have a whole lot.

17 MS. VOHRA: Your Honor, we do not have very much  
18 cross.

19 ACALJ NODES: Okay. And Mr. James.

20 MR. JAMES: Probably 30 to 45 minutes.

21 ACALJ NODES: Okay. So we should easily be able  
22 to finish Mr. Moore today.

23 MR. JAMES: Hopefully.

24 ACALJ NODES: Those predictions don't always  
25 come true, do they.

1 MR. JAMES: Your Honor, before we get started,  
2 and perhaps everybody in the room knows this and I  
3 don't, what is our schedule for next week? 9:30 every  
4 morning next week?

5 ACALJ NODES: Yes, yes.

6 MR. JAMES: I made the mistake of looking at the  
7 hearing calendar last night. It said we started at  
8 11:00 on Friday, assuming we are not done.

9 ACALJ NODES: Friday is a problem. We are  
10 already putting people in conference rooms for some  
11 other hearings. Friday we can't even get a -- one of  
12 the minor hearing rooms until after. There were two  
13 prior hearings.

14 MR. JAMES: I notice there are two procedural  
15 conferences. I think one was on a rate case. So it  
16 looked like there was a real conflict, sure.

17 ACALJ NODES: Yes. And I am hoping we can  
18 somehow finish before then, but --

19 MR. JAMES: Sure.

20 ACALJ NODES: -- you know, we will see.

21 MR. JAMES: Well, that's the hope, too. I  
22 wasn't suggesting I thought we were going to go all  
23 week. We would like to finish early. But we are going  
24 to move, though, and it is part of the reason -- because  
25 we have, you know, so many documents in this case, if we

1 have to move, change hearing rooms, I want to make sure  
2 we have people down here to help us physically move  
3 these.

4 ACALJ NODES: Yes. Tuesday we are still good  
5 here. So over the weekend you can leave your stuff  
6 here. So we have one more day in this room, Tuesday.  
7 And then we have to move to Room 100, which is the one  
8 with that little bench in it.

9 MR. JAMES: That's the engineering down -- it is  
10 the end of the hall?

11 ACALJ NODES: Yes, yes. So we will just have to  
12 make do, unfortunately.

13 MR. JAMES: Okay, thank you. I just wanted --  
14 it was really a logistical question.

15 ACALJ NODES: So, Tuesday, Wednesday, Thursday,  
16 three full days, and then half plus day on Friday if  
17 needed. You know, and we may have to go late perhaps if  
18 we need to. I don't know. I mean we will see how it  
19 goes. But I am still hopeful we can -- things will move  
20 along a little more quickly now.

21 Okay. Ms. Wood.

22 MS. WOOD: Your Honor, Rodney Moore.

23

24

25

1                                RODNEY MOORE,  
2    a witness herein, having been first duly sworn by the  
3    Certified Reporter to speak the truth and nothing but  
4    the truth, was examined and testified as follows:

5

6                                DIRECT EXAMINATION

7    BY MS. WOOD:

8            Q.        Mr. Moore, how are you employed and what was  
9    your involvement in this particular case?

10          A.        Yes. My name is Rodney Moore, and I am a public  
11    utility analyst for the Residential Utility Consumer  
12    Office, located at 1110 West Washington, Phoenix,  
13    Arizona.

14          Q.        Did you submit prefiled testimony in this  
15    matter?

16          A.        Yes, I did.

17          Q.        And you have before you what is marked as R-16.  
18    Could you identify that for the record, please.

19          A.        That is my direct testimony.

20          Q.        All righty. And with regard to Exhibit R-16, if  
21    I asked you the same questions that you were asked and  
22    answered in there, would your answers be the same?

23          A.        Yes.

24          Q.        Do you have any corrections?

25          A.        No.

1 Q. Okay. And looking at R-17, can you identify  
2 that, please.

3 A. That's my surrebuttal testimony on rate design.

4 Q. All right. And if I asked you the same  
5 questions that you were asked in there and answered,  
6 would your answers be the same?

7 A. Yes.

8 Q. Do you have any corrections to this?

9 A. Yes. As identified by Joel Reiker in his  
10 rejoinder testimony, I have a couple of typo errors on  
11 page 56 and 62 of my surrebuttal schedules.

12 The error on page 56 creates a discrepancy  
13 between the actual monthly increase for the typical Casa  
14 Grande residential, the customer, and the increase as  
15 calculated by RUCO. RUCO recorded this increase on  
16 page 56 as \$3.06, but in reality the monthly increase  
17 for a typical residential customer in Casa Grande would  
18 be \$2.95 under RUCO's recommended revenue requirement.

19 As for the typo on page 62 --

20 ACALJ NODES: Wait a minute, wait a minute.

21 THE WITNESS: Okay.

22 ACALJ NODES: Page 56, go over that again.

23 Where is it that you are correcting?

24 THE WITNESS: Okay. I miscalculated the ACRM  
25 surcharge. I have got it down as .2024.

1 ACALJ NODES: Okay.

2 THE WITNESS: And that was incorrect.

3 ACALJ NODES: What should those -- all those  
4 0.2024 numbers should be on lines 2 through 4 should be  
5 changed?

6 THE WITNESS: Correct.

7 ACALJ NODES: Okay. What should they be?

8 THE WITNESS: I believe the number, subject to  
9 check, is .2324.

10 ACALJ NODES: Okay. And then I assume there are  
11 a whole lot of flow-through effects from that change.

12 THE WITNESS: Where it affects is down on --  
13 where it says under column D lines 5 through 9, where it  
14 says present total monthly cost.

15 ACALJ NODES: Okay.

16 THE WITNESS: For my analysis on my typical bill  
17 analysis, on line 7, that particular amount would  
18 increase. Therefore, the difference between RUCO's  
19 proposed monthly cost and line E and column D, instead  
20 of being \$3.06 as represented in column F, would  
21 actually only be \$2.95.

22 BY MS. WOOD:

23 Q. Is that 2.95 or 2.48?

24 A. 2.95.

25 ACALJ NODES: Okay. So the only thing you are

1 actually correcting is that 3.06 changing to the 2.95?

2 THE WITNESS: Correct. That is the number that  
3 becomes effective on the schedule that Director Jerich  
4 used in her, in her schedules.

5 ACALJ NODES: Okay. Well, and not that this  
6 probably matters, but I am guessing that there are some  
7 other changes that all -- I mean --

8 THE WITNESS: I will --

9 ACALJ NODES: -- don't you need to substitute a  
10 page that has the corrected amounts?

11 THE WITNESS: I was planning on filing post  
12 hearing schedules that would.

13 ACALJ NODES: Okay.

14 THE WITNESS: Because it only affects, it is a  
15 minor adjustment just for Casa Grande and one for  
16 Stanfield which is even more minor.

17 ACALJ NODES: You were going to clean it up in  
18 the final schedules then?

19 THE WITNESS: I did make a copy. Yes, that was  
20 what I was going to do.

21 ACALJ NODES: Okay.

22 THE WITNESS: It is, the actual ACRM surcharge  
23 to Casa Grande for the commodity charge is dot -- was  
24 0.2334 cents.

25 ACALJ NODES: Okay. In any event, you agree



1 with Mr. Reiker's rejoinder testimony on that issue?

2 THE WITNESS: Correct.

3 ACALJ NODES: And you are going to file final  
4 schedules that reflect the change?

5 THE WITNESS: Correct.

6 ACALJ NODES: Got you. Okay.

7 THE WITNESS: Okay.

8 ACALJ NODES: Move on.

9 THE WITNESS: So then on page 62, there were  
10 minor changes in column B, lines 1, 2, and 3, which  
11 changes the present total value by one penny. So it is  
12 very minor. And I think the total effect on the  
13 Stanfield system amounts to about \$2.50 a month. So it  
14 will be in my post hearing filing.

15 ACALJ NODES: Not the average bill increases by  
16 2.50 a month?

17 THE WITNESS: No, the entire.

18 ACALJ NODES: The entire, okay, I got you.  
19 Okay.

20 BY MS. WOOD:

21 Q. And now there are two sets of testimony being  
22 filed in this case regarding rate design consolidation.  
23 Can you specifically identify what your function was?

24 A. Okay. My participation in this rate case was  
25 limited to developing a set of accurate bill

1 determinants producing a rate design with alternative  
2 options to correctly portray RUCO's position on rate  
3 consolidation and provide proof the design will produce  
4 the appropriate revenue requirement.

5 Q. Now, there is additional testimony that will be  
6 submitted and discussed next week with our director,  
7 Ms. Jerich?

8 A. Correct.

9 MS. WOOD: Okay. With this, I would ask for  
10 admission of Exhibits R-16 and 17.

11 ACALJ NODES: Okay. Any objection?

12 MR. SHAPIRO: No objection.

13 ACALJ NODES: R-16 and 17 are admitted.

14 (Exhibits Nos. R-16 and R-17 were admitted into  
15 evidence.)

16 MS. WOOD: And I tender the witness for  
17 cross-examination.

18 ACALJ NODES: All right. Mr. James.

19 MR. JAMES: Thank you.

20

21 CROSS-EXAMINATION

22 BY MR. JAMES:

23 Q. Good afternoon, Mr. Moore.

24 A. Good afternoon.

25 Q. Now, I am going to try to -- I am going to have

1 to ask you a few questions about Ms. Jerich's testimony.  
2 I know that she is testifying on something a little bit  
3 different than you are. But I assume you are -- and if  
4 you can't answer a question or if it is out of your  
5 scope, you just tell me. Okay?

6 A. Okay.

7 Q. And I am assuming you are generally familiar  
8 with her testimony, is that fair?

9 A. Generally, yes. I was involved with doing the  
10 calculations for the options.

11 Q. Okay. Well, let me ask you, and again if this  
12 is out of the scope of your testimony, just say so, but  
13 Ms. Jerich states on page 4 of her surrebuttal testimony  
14 that, and I am quoting here, RUCO continues to contend  
15 that separate rates for separate systems respect the  
16 principle of traditional cost of service ratemaking and  
17 ensure that those who use the utility services pay for  
18 them.

19 Now, is that, as far as you are concerned -- I  
20 mean you are the rate design witness in this case,  
21 correct? Your job is to develop the rate design?

22 A. Correct.

23 Q. Is that an accurate, what I just quoted, is that  
24 an accurate statement of RUCO's position?

25 A. I would think to avoid any confusion on RUCO's

1 position, I would defer to Director Jerich's responses  
2 next week.

3 Q. Okay. Where I was going with this was, again  
4 not to cross-examine you on Ms. Jerich's recommendation  
5 here, but what I was trying to establish is whether it  
6 is RUCO's position that the rates that should be set for  
7 each of Arizona Water Company's systems should be based  
8 on traditional cost of service principles.

9 A. I believe she could more accurately explain  
10 RUCO's position on that. I was involved with producing  
11 like an accurate set of bill determinants. And  
12 basically after reading Mr. Reiker's cost of service  
13 study and Steve Olea's response, I -- my direct  
14 testimony maintained that integrity of those  
15 determinants, and it was basically only adjusted for  
16 RUCO's revenue requirement.

17 In surrebuttal, I made a few adjustments to the  
18 company's rate design, and then from there, we -- I made  
19 adjustments as requested for different options. But  
20 basically it was, I did strictly calculations to get  
21 accurate results on those bill determinants.

22 Q. Okay. And that's, again, that's fair. I am not  
23 trying to, again, ask you questions I should be asking  
24 some other witness. But your answer a moment ago sort  
25 of touches on sort of where I was going.

1           The company did prepare a cost of service study  
2 for each system, correct?

3       A.     Correct.

4       Q.     As you indicated a moment ago you reviewed those  
5 cost of service studies?

6       A.     Correct.

7       Q.     As well as Mr. Olea's testimony and his  
8 schedules relating to the same issue, correct?

9       A.     Correct.

10      Q.     And you indicated, I think, that RUCO, in  
11 designing its rates, attempted to follow the company's  
12 cost of service study. Obviously your revenue level is  
13 different, et cetera, but you attempted to follow the  
14 methodology and the design indicated by the company's  
15 cost of service study?

16      A.     Correct. There was, as I stated in my  
17 surrebuttal testimony, there was a few minor adjustments  
18 that I made.

19      Q.     Okay. And as far as you are concerned -- and  
20 you have been testifying on water and water rate cases  
21 at the Commission now for a number of years, correct?

22      A.     Correct.

23      Q.     So I am assuming you have had occasion to look  
24 at cost of service studies in prior cases, correct?

25      A.     Correct.

1 Q. And was there any sort of issue or problem with  
2 the company's commodity demand methodology in its cost  
3 of service study?

4 A. I was satisfied reading it. I found no problems  
5 with it.

6 Q. Okay. And if I understood your testimony, what  
7 RUCO is proposing -- and again, I am focusing on rate  
8 design, not rate consolidation. And I may touch on that  
9 a little bit, I may touch on the Exhibit B to  
10 Ms. Jerich's testimony a little later, but for now I  
11 just want to focus on rate design, which is what you  
12 did, right?

13 A. Right.

14 Q. All right. And again relying on the cost of  
15 service study, it sounded, and reading your testimony  
16 and looking at the rates you recommended, and also  
17 reading Ms. Jerich's testimony, it sounds like RUCO is  
18 also concerned about avoiding, if possible, subsidies  
19 between customer classes in designing rates.

20 A. I attempted to basically maintain the integrity  
21 of Mr. Reiker's design, which, yes, not subsidized  
22 between.

23 Q. Well, for example -- well, again, you thought  
24 that the, that the proposal of the -- strike that.  
25 Start over.

1           So what you are really indicating, then, is  
2   having reviewed Mr. Reiker's cost of service study, you  
3   thought that the allocations and so on that he made were  
4   reasonable, reasonable cost-based allocations?

5       A.     Correct.

6       Q.     Okay. And, for example, in Casa Grande, as you  
7   know, we have got an issue, Abbott Labs has intervened,  
8   we have got an issue with respect to the proposed rate  
9   design for industrial customers for the Casa Grande  
10  system. Was the approach that you would adopt and RUCO  
11  is recommending in this case, is it consistent with the  
12  company's recommended rate design for those customers?

13      A.     Yes, on the commodity. But on the basic service  
14  charge where it was pointed out where those meter  
15  multiplying factors were different, I used a standard  
16  multiplier for every system according to that data  
17  request. So in Casa Grande, those six- and eight-inch  
18  meters, there was a minor change on those.

19      Q.     But you would generally agree that given the  
20  rate of return being paid by industrial customers on  
21  six-inch meters in Casa Grande, that it would be  
22  inappropriate to further increase the revenues allocated  
23  to those customers?

24      A.     Excuse me. Could you repeat that again.

25      Q.     Well, let me try to rephrase it. Again, you

1 have looked at, you have looked at the various rate  
2 design proposals from the parties in this case, correct?

3 A. Correct.

4 Q. And under the company's proposal, the rate of  
5 return being paid by customers on six-inch meters in  
6 Casa Grande would not be increased, is that right?

7 A. Correct.

8 Q. And what I am asking is whether you -- whether  
9 RUCO agrees with the company's recommendation in that  
10 regard.

11 A. Yes. I use the same cost -- I used his figures  
12 and adjusted them for our revenue requirements, yes.

13 Q. Okay. So the only change was that the monthly  
14 service charge is somewhat higher for six- and  
15 eight-inch industrial customers in Casa Grande because  
16 you used a different meter multiple in calculating the  
17 monthly minimum?

18 A. Correct.

19 Q. Okay. Now, your rate design is also based on  
20 the rate design proposed by the company, is that right?

21 A. Yes.

22 Q. In other words, you are proposing an inverted  
23 tier rate design, correct?

24 A. Right.

25 Q. And you used the same breakover points?



1 A. I used, yes.

2 Q. Okay. And Mr. Moore, what is the purpose of  
3 using an inverted tier rate design like the rate design  
4 you are proposing and the company has proposed?

5 A. It is an attempt to provide a price signal for  
6 conservation, and create a vehicle by which customers  
7 can adjust their bill by discretionary use of their  
8 water, if the breakover points are set at the proper  
9 points.

10 Q. Okay. And again, did you do an independent  
11 analysis of what breakover points might be appropriate?

12 A. No.

13 Q. Okay. You just accepted the company's breakover  
14 points?

15 A. Correct.

16 Q. Do you expect this rate design to encourage the  
17 company's customers to use less water?

18 A. It would have the ability, if they became cost  
19 sensitive to their bills, they may look at it and be  
20 able to adjust their usage.

21 Q. Well, and that is the purpose of having an  
22 inverted tier rate design, correct?

23 A. Correct.

24 Q. Is to make customers sensitive to what it cost  
25 to use water, particularly at higher levels of usage,

1 correct?

2 A. Correct.

3 Q. Now, the company's northern group systems -- and  
4 let me back up.

5 You are familiar with the way the company has  
6 been grouped in the past, so if I use terms like  
7 northern group you understand what I mean?

8 A. Correct.

9 Q. Okay. The northern group system at the present  
10 time have a single flat commodity rate, correct?

11 A. Yes.

12 Q. They don't have any type of inverted tier rates  
13 in effect at the present time?

14 A. Correct.

15 Q. Is it reasonable to assume, Mr. Moore, that  
16 imposing an inverted tier rate design on those customers  
17 will result in some reductions in water use?

18 A. It may. But there is also in those five  
19 northern districts, under my rate design, several of  
20 them are getting decreases. And also their monthly  
21 usage is fairly low. So they may not have the  
22 discretionary ability to reduce.

23 Q. Okay. Let's talk about the second point first.  
24 Those systems, or at least several of those systems are  
25 pretty seasonal in terms of their use pattern, aren't

1 they?

2 A. I would suspect so, yes.

3 Q. In other words, Pinewood is over 7,000 feet in  
4 elevation. I wouldn't expect there would be a lot of  
5 discretionary water use during the winter months in  
6 Pinewood. Is that fair?

7 A. Right. And that system has the lowest use in  
8 the company.

9 Q. So when we say average usage, you are talking  
10 about the average use on a full 12-month basis, correct?

11 A. That's how it is calculated.

12 Q. That's how it is calculated. I am not being  
13 critical.

14 A. Right.

15 Q. The point is, though, in terms of encouraging  
16 water conservation, the impact of those inverted tier  
17 rates for systems like Pinewood or Lakeside or  
18 Overgaard, or perhaps even Sedona, that's going to be  
19 felt primarily in the warmer months of the year,  
20 correct?

21 A. If it is, yes, that's when it would occur.

22 Q. You would expect, wouldn't you, higher usage  
23 levels in July and August than in January and  
24 February for those systems?

25 A. Correct, yes.

1 Q. But the problem with using an average is it sort  
2 of smoothes out those, those -- that usage pattern and  
3 makes it, makes it look flat when it really isn't, is  
4 that fair?

5 A. That's fair.

6 Q. Okay. Now, did you look at the linear  
7 regression analysis that Mr. Reiker performed that shows  
8 that inverted tier rates have reduced water use for the  
9 eastern and western group systems?

10 A. I remember that, yes.

11 Q. Okay. Did you have any sort of issue or problem  
12 with the analysis that Mr. Reiker did?

13 A. Not -- no.

14 Q. Okay. Is it also true that inverted tier rates  
15 result in greater revenue instability, in other words,  
16 as you suggested, if they do work, revenues go down?

17 A. That could be a possibility.

18 Q. Right. You don't -- whether -- even if  
19 Mr. Reiker is incorrect, the fact is we are not sure  
20 what is going to happen, and it makes the company's  
21 revenue stream a lot less predictable, correct?

22 A. Yes.

23 Q. Now, under your rate design, and again I think  
24 as you testified, Mr. Moore, it is essentially the same  
25 as the company's, for residential customers on

1 five-eighths by three-quarter inch meters there would be  
2 three commodity tiers, is that right?

3 A. Yes.

4 Q. So the first tier would apply to water usage  
5 between zero and 3,000 gallons, is that right?

6 A. Correct.

7 Q. And water in that tier is priced at a discount  
8 of about 25 percent from water in the second tier, is  
9 that correct?

10 A. Yes.

11 Q. And that was the approach that the company used,  
12 and I am assuming RUCO used the same approach?

13 A. Yes.

14 Q. Okay. So that's, you could call that, I guess,  
15 a lifeline rate. Is that what it is sometimes called?

16 A. I have heard it called that, yes.

17 Q. So it gives customers on smaller meters the  
18 ability to purchase up to 3,000 gallons of water at a  
19 cost that's below the cost of service, is that right?

20 A. Correct.

21 Q. Okay. Then there is a second commodity tier.  
22 And again I am talking about the customers in  
23 five-eighths inch meters. Okay? There is a second  
24 commodity tier rate that applies to usage between 3,000  
25 and 10,000 gallons, is that right?

1 A. Correct.

2 Q. Okay. And then there is a third, I am sorry,  
3 there is a third or upper rate tier that applies to all  
4 usage over 10,000 gallons in a month, right?

5 A. Correct.

6 Q. And that water is priced at a premium over the  
7 second tier to encourage water conservation, is that  
8 right?

9 A. Correct.

10 Q. And how did you calculate the premium to add on  
11 to the commodity rate in that upper tier?

12 A. I just mirrored the company's ratio between  
13 their tiers.

14 Q. I see. And that was about, that was  
15 approximately a 25 percent premium over the commodity  
16 rate in the second tier, is that right?

17 A. Yes, subject to check, yes.

18 Q. Okay. Now, for residential customers with  
19 larger size meters and for commercial customers under  
20 the company's proposal, and I think under your proposal,  
21 there are two commodity rate tiers, is that right?

22 A. Yes.

23 Q. There isn't that initial lifeline rate tier?

24 A. Correct.

25 Q. Okay. And again, with respect to those

1 customers, water in the upper tier has priced in  
2 25 percent premium to encourage conservation, is that  
3 right?

4 A. Yes.

5 Q. Okay. Now, the company has proposed a uniform  
6 or flat commodity rate for industrial customers,  
7 correct?

8 A. Yes.

9 Q. And does RUCO agree with the company's position  
10 that it is unnecessary to have inverted tier rates for  
11 industrial customers?

12 A. Yes. I think that would be very difficult to  
13 make an effective tier rate when, as was explained by  
14 Abbott, when they used 25 million gallons a month. I  
15 mean, where would you put the breakovers to make it  
16 effective? So, yes, I think one tier is --

17 Q. Is appropriate?

18 A. -- is appropriate.

19 Q. And isn't one of the problems, particularly with  
20 industrial customers, as was pointed out, there are  
21 industrial customers in smaller size meters, too, right?

22 A. Correct.

23 Q. But one of the problems with industrial  
24 customers is that they are not a particularly uniform  
25 class, are they?

1 A. I -- yes, I can understand your question. I  
2 didn't do any study on that.

3 Q. Okay. You didn't look at the specific types of  
4 customers that are classified as industrial users?

5 A. No.

6 Q. Okay. But you do and RUCO does agree that a  
7 uniform flat commodity rate for those customers is  
8 appropriate?

9 A. When I listened to or read the testimony of  
10 Abbott Laboratory, I can understand their predicament,  
11 and it seemed a reasonable rate to have a flat rate  
12 there.

13 Q. Let me talk now, let's talk a little bit about  
14 your -- let me talk a little bit about your rate design  
15 in terms of how you, if you will, synched your rate  
16 design with Ms. Jerich's testimony. And again, I am not  
17 trying to ask you questions about her testimony. Okay?  
18 If I understand RUCO's -- well, in fact, let me back up  
19 a step.

20 During the hearing, I have been hearing the term  
21 consolidation model. Is there a model, or is this more  
22 properly simply RUCO's proposal for consolidation?

23 A. Well, I will tell you how it came about. We did  
24 several options. And one of them was full  
25 consolidation, and another one was a consolidation with



1 just base rates and allow the commodity rates to adjust  
2 for each system. And that option seemed to produce, you  
3 know, produce a product that we liked, except there was  
4 a wide band of increases.

5 And so when we looked at it we said, well, why  
6 don't we just cap the increases to five bucks. So that  
7 was the model or the option that I finally filed after,  
8 you know, working through the system and making the  
9 minor changes I did to have an option where the highest  
10 increase for five-eighths customer was \$5. Now, I guess  
11 that would be RUCO's model.

12 Q. Okay. But there isn't a model. When I hear of  
13 a model I think a computer model, something you plug  
14 numbers into and otherwise plug data into. That's not  
15 what we are talking about here, is it?

16 A. Well, I do -- it is an Excel spreadsheet that  
17 will, if I change the revenue requirement, will change  
18 the rate design --

19 Q. Okay.

20 A. -- or numbers.

21 Q. All right. Fair enough. And I want to get back  
22 to that.

23 Let me start by looking at page 4 of your  
24 surrebuttal. And that's the page, as you may recall,  
25 where you talk about the things that you change between

1 your direct and surrebuttal testimony.

2 A. Correct.

3 Q. I just have to find it myself here. Do you have  
4 it?

5 A. I have it.

6 Q. Okay. Well, first of all, if I understand  
7 RUCO's proposal correctly, Arizona Water Company would  
8 not be allowed to consolidate its rates. Instead, each  
9 of its 17 systems would continue to have its own rate  
10 schedule, is that right?

11 A. I would leave that option open. I would, again,  
12 defer to Director Jerich what RUCO's final position on  
13 that would be.

14 Q. Okay. But I was sort of following up questions  
15 that the judge had asked some of the other witnesses,  
16 about whether your proposal would simply be the first  
17 step to full consolidation, or whether there is no step  
18 involved, this is just it and we never progress any  
19 further. And that's a question I need to ask the  
20 director about?

21 A. I would believe so.

22 Q. Okay. But in this particular case, you  
23 developed separate rate schedules for each of the  
24 company's 17 systems. That was attached to your  
25 testimony, right?

1 A. Correct.

2 Q. And unless full consolidation is authorized in  
3 each subsequent case, we continue to have to use your  
4 model, or whatever we want to call it, to generate 17  
5 separate rate schedules for the company, correct?

6 A. To generate the rate design as filed in my  
7 surrebuttal, it would take 17 systems, yes.

8 Q. And if we go through what you have done, and  
9 that's why we will -- let's look at page 4.

10 A. Okay.

11 Q. The first thing you say is you standardized the  
12 meter multiplier factor for all meter classes. I think  
13 we talked about that earlier, correct?

14 A. Correct.

15 Q. Okay. And that's the bump you gave to the six-  
16 and eight-inch industrial customers in Casa Grande?

17 A. Yes. And there were a few minor ones. Joel and  
18 I talked about it, and so I believe he was going to  
19 adjust some of his, and we were going to standardize  
20 them except in that Casa Grande.

21 Q. So that isn't a huge change in terms of the  
22 impact in customer rates?

23 A. Very small.

24 Q. Okay. All right. Then number 2 you say you  
25 standardized the basic service charge for five-eighths

1 by three-quarter inch metered, I am sorry, residential  
2 customers in all systems at \$15. Now, how did you  
3 determine \$15 for a monthly minimum? Was that based on  
4 the cost of service study or based on something else?

5 A. Normally as a rule of thumb we would, I would  
6 attempt to have the revenue to be generated from the  
7 fixed cost, monthly cost to be around 40 percent of the  
8 revenue requirement and 60 from the variable. But after  
9 discussions with the company and the concern about the  
10 northern group getting an incorrect signal about their  
11 commodity charges, it may cause a supply problem there.  
12 So we picked a number at around 35 percent of revenue,  
13 and \$15 was the round number that came out of that  
14 calculation.

15 Q. Okay. And if I understand then what you did,  
16 you then capped the increase for five-eighths inch  
17 residential customers using the average amount of water  
18 use at \$5, is that right?

19 A. Correct. After I established the \$15 base rate,  
20 I went through and adjusted the commodity rates to get  
21 the revenue requirement for each system independent ly.  
22 Then when we looked over on the typical bill analysis,  
23 what the increase was for, the average five-eighths  
24 customer, and those customers that had an increase  
25 greater than \$5, we capped it at 5, adjusted the

1 commodity charge to hit that level. And, of course,  
2 there was a shortfall in the revenue requirement.

3 Q. And the shortfall, if I recall from your  
4 testimony, was just over half a million dollars, is that  
5 right?

6 A. Correct.

7 Q. And so you had to take that revenue, and since  
8 it is not being recovered in the commodity rate, you  
9 moved it back into the monthly minimum charge, is that  
10 correct?

11 A. Correct. I went back and adjusted the monthly  
12 minimum to -- until it raised to RUCO's revenue  
13 requirement. And it happened to every residential, it  
14 raised it 41 cents a month.

15 Q. And so the revenue shortfall created by the cap,  
16 as we call, the \$5 cap for customers in Winkelman,  
17 Miami, Stanfield, and Rimrock, was essentially  
18 reallocated to all company customers through the change  
19 in the monthly minimum charge?

20 A. Correct.

21 Q. And once you made that reallocation, how did it  
22 affect the allocation of revenue between the monthly  
23 minimum charge and the commodity rate? Was it still  
24 around 35 percent?

25 A. It is very close to there, yes.

1 Q. Okay. So one thing your rate design does is to  
2 shift recovery of more of the revenue requirement into  
3 the commodity rate, is that correct, than would normally  
4 be the case?

5 A. It is within the ballpark, you know, 35,  
6 40 percent.

7 Q. I think if I recall Staff's rate design witness'  
8 testimony, or maybe it was in response to a data  
9 request, I think he said Staff on average was around  
10 43 percent in the monthly minimum. Would that be  
11 typical?

12 A. That's well within the range, yes.

13 Q. And the more money you shift into the commodity  
14 rate, the more revenue volatility or instability there  
15 would be, correct?

16 A. Correct. And it would also -- it wouldn't allow  
17 the customer the ability to adjust their bill through  
18 discretionary use if the commodity charge is not  
19 significantly different between the tiers then. If  
20 there is more money in the base rate and there is less  
21 money in the commodity, it wouldn't affect their  
22 discretionary bill.

23 Q. I see. So what you are saying is it is sort of  
24 the flip side of the coin of my question, if you will.  
25 By shifting more revenue recovery into the commodity

1 rate, you are able to send a stronger price signal,  
2 making it more likely customers are going to actually  
3 reduce usage?

4 A. Correct.

5 Q. Okay. Now, I notice -- and you made a couple  
6 corrections that Mr. Reiker had pointed out in his  
7 testimony -- when you calculated the amount of the  
8 increase, you included the current arsenic cost recovery  
9 mechanism surcharges, correct?

10 A. Correct.

11 Q. Okay. And you would agree in terms of analyzing  
12 the impact of rates in this case on customers, we should  
13 be considering the arsenic cost recovery mechanisms and  
14 not simply the current base rates?

15 A. Correct. That arsenic is -- already shows up on  
16 the customer's present bill. So the customer knows what  
17 he is paying for water now, and he would probably like  
18 to know what he is going to pay in the future.

19 Q. Sure. So when you did your analysis of, for  
20 example, the \$5 cap, et cetera, you didn't start from  
21 the base rates, you started from the base rates plus the  
22 surcharges approved, the surcharges under the arsenic  
23 cost recovery mechanism decisions?

24 A. Correct.

25 Q. Okay. Now, your rate design is, of course,

1 based on RUCO's recommended level of revenues, correct?

2 A. Correct.

3 Q. Okay. Suppose that -- I don't know whether this  
4 is helpful. Well, let me ask you. I can refer you to  
5 something if you don't know.

6 If we take into account the revenues produced by  
7 the arsenic cost recovery mechanism surcharges, would  
8 you agree that RUCO is recommending an increase in  
9 revenues on a company-wide basis of about \$2.3 million?

10 And we can look at something if that's helpful.  
11 I am not trying to trick you.

12 A. That's subject -- I know our increase over --

13 Q. Do you have Mr. Reiker's rejoinder testimony?  
14 My partner is playing with his BlackBerry.

15 MR. SHAPIRO: A-22.

16 MR. JAMES: My partner tells me it is A-22.

17 ACALJ NODES: Mr. James, can you pull the  
18 microphone down just a little bit.

19 MR. JAMES: I am sorry.

20 ACALJ NODES: That's all right.

21 BY MR. JAMES:

22 Q. Now, I am sorry, if you look at page 13 of  
23 Mr. Reiker's rejoinder, Exhibit A-22.

24 A. Okay.

25 Q. Now, those are the surcharges -- or excuse me.



1 That isn't correct. Page 14. Sorry, I am off a page.

2 Now, that's a summary of the company's --

3 A. Excuse me just a minute.

4 Q. I am sorry.

5 A. I don't have any.

6 Q. Really? No table?

7 ACALJ NODES: 23?

8 MR. JAMES: Yes, I think that's right, Judge.

9 THE WITNESS: It is all text.

10 BY MR. JAMES:

11 Q. It is A-23.

12 A. Oh.

13 Q. Sorry about that, I apologize. I shouldn't have  
14 trusted Mr. Shapiro.

15 A. Okay, I am there.

16 Q. All right. Page 14. And I just want to go  
17 through this very quickly.

18 A. Okay.

19 Q. Page 14 is a table that shows the company's  
20 proposed increases with the effect of the arsenic cost  
21 recovery surcharges. Do you see that?

22 A. Correct.

23 Q. And the company is asking for an increase of  
24 approximately \$8.4 million, with the arsenic cost  
25 recovery mechanism surcharge accounted for, correct? At

1 least that's what is shown on that table?

2 A. Yes.

3 Q. Next page, 15, now that's Staff's proposal with  
4 the arsenic cost recovery mechanism surcharge as  
5 accounted for. Staff is proposing increase of about  
6 \$4.2 million or about just under 10 percent, correct?

7 A. Yes.

8 Q. Next page, page 16, there is a similar table,  
9 and that shows RUCO's proposal. Again, accounting for  
10 the arsenic cost recovery mechanism surcharges, RUCO's  
11 recommended increases are approximately \$2.3 million?

12 A. Correct.

13 Q. Okay. And as you had indicated, Mr. Moore, some  
14 of the systems would be receiving decreases, wouldn't  
15 they, under RUCO's proposal?

16 A. Correct.

17 Q. In fact, there would be one, two, three, four,  
18 five, six of the 17 systems would receive a rate  
19 decrease, correct?

20 A. Correct.

21 Q. Okay. Now, my question, and what I was leading  
22 up to, is this: Having gone through the approach that  
23 you used with the \$5 cap and the adjustment you made to  
24 the monthly minimum, et cetera, could we use the same  
25 methodology if, for example, the Commission were to

1 increase rates, again looking at the tables we just  
2 looked at, instead of increasing rates over the existing  
3 rates by \$2.3 million as RUCO has recommended, the  
4 Commission approved a \$6 million or an \$8 million  
5 increase? Would that same approach work if you are  
6 dealing with a larger increase?

7 A. Certainly. My work papers would accommodate any  
8 adjustment in revenue requirement.

9 Q. Okay. Well, let me be more precise then. I  
10 should have asked the question differently.

11 The approach that you have used is premised on  
12 ensuring that residential customers on five-eighths by  
13 three-quarter inch meters don't receive an increase  
14 that's greater than \$5 on their bill, correct?

15 A. Correct.

16 Q. And my question is: RUCO is recommending an  
17 increase as we just looked at of about 2.3 million,  
18 right?

19 A. Correct.

20 Q. Now, if the increase were again, let's just pick  
21 a number, \$7 million, if the increase were \$7 million,  
22 which is about three times the revenue increase RUCO is  
23 recommending, can you still hold the increase to \$5 and  
24 take that additional revenue and roll it into the  
25 monthly service charge? Does it still work?

1       A.       As a calculation, I cannot see why it would not  
2 work. As a policy decision of what the overall outcome  
3 would be, the effects on all the systems, you know,  
4 would be a policy decision that has to be made. But as  
5 to do the calculation and leave those four systems at  
6 five bucks, maybe other ones would fall into it.

7       Q.       Well, let me ask it a little different way. The  
8 way you did it, again, at RUCO's recommended level of  
9 increase, there was about half a million dollars,  
10 500,000, that had to be shifted from the commodity rate  
11 for four systems into the monthly minimum charge,  
12 correct?

13      A.       Uh-huh.

14      Q.       That's right, isn't it?

15      A.       Correct.

16      Q.       Okay. If you had a larger revenue increase, you  
17 could have first, as you suggested a moment ago, you  
18 could have more systems affected, correct?

19      A.       Correct.

20      Q.       You could also be dealing with, second of all, a  
21 lot more money, a lot more revenue that would not be  
22 recovered, correct?

23      A.       If the \$5 cap was maintained, yes.

24      Q.       Yes. And that money, if it could be  
25 several million dollars, would have to be rolled into

1 the basic monthly charge, correct?

2 A. Yes.

3 Q. But you still think it could be done?

4 A. There would be a maximum where there would be  
5 too much revenue to recover --

6 Q. Okay.

7 A. -- that a \$5 increase on every customer wouldn't  
8 cover it.

9 Q. But you don't know what that is?

10 A. No.

11 Q. Okay. You didn't attempt to run different  
12 scenarios and see what the effect would be at different  
13 revenue levels?

14 A. No.

15 Q. Just a couple more questions. On single tariff  
16 pricing or rate consolidation -- and again, I want to  
17 focus more on your experience as a rate analyst and your  
18 testimony in rate cases as opposed to the policy issues  
19 that Ms. Jerich is testifying about. Okay?

20 Obviously you have worked on this case. You  
21 have seen now the amount of papers that have been  
22 generated. Wouldn't one of the benefits of  
23 consolidating at least some of the company's systems in  
24 this case be that it would result in a much simpler rate  
25 case, shorter, simpler, less paper to deal with?

1       A.       Certainly.  If you were to analyze the company  
2       from 30,000 feet, one aggregate company, there would be  
3       less investigation, less analysis done, and it would be  
4       less time consuming.  But to maintain an analysis that's  
5       done on the 17 systems now, you know, does require 17  
6       sets of books to analyze the separate plant and  
7       expenses.

8       Q.       And -- excuse me.  I am doing it again, Judge.  
9               Some of those systems as you have heard  
10       testimony on, some of those systems would be the  
11       equivalent of a Class C or even a Class D water utility,  
12       correct?

13      A.       Yes.

14      Q.       And if those were stand-alone systems they  
15       wouldn't require the level of detail in terms of the  
16       schedules and other information that is required of  
17       Arizona Water Company when it files, right?

18      A.       Yes.  There is an increasing number of schedules  
19       as the size of the company increases.

20      Q.       And in addition, there are longer time periods  
21       to complete a Class A utility rate case than a Class C  
22       or a Class D utility rate case?

23      A.       Yes.

24      Q.       And you know, again, as the judge has indicated,  
25       the Staff is very busy.  You are understaffed.  And a

1 case as complex as this case creates serious  
2 difficulties not just for the company, but for the  
3 Commission Staff and my guess is probably for RUCO, too.  
4 Is that fair?

5 A. Yes.

6 Q. And by combining systems and at least  
7 eliminating the numbers, the amount of paper that has to  
8 be filed, the amount of schedules that have to be filed,  
9 there is certainly a benefit to the company, to Staff,  
10 and to RUCO, isn't there?

11 A. Certainly to analyze one set of schedules is a  
12 lot easier than analyzing 17 sets of schedules.

13 Q. And it affects rate case expense, too, doesn't  
14 it?

15 A. That which is approved?

16 Q. Well, actually both. What is approved, I mean  
17 what the company ultimately receives from the Commission  
18 in terms of its authorized rates and what the company  
19 actually incurs?

20 A. Correct.

21 Q. Okay. One more question or couple of questions.  
22 Again, this may be something out of your area.

23 I am still struggling to figure out how RUCO's  
24 consolidation proposal would actually encourage the  
25 acquisition of small troubled water systems. Is that a

1 topic you can address, or should I defer that to  
2 Ms. Jerich?

3 A. I would defer that, right.

4 Q. Okay. One other question. Under RUCO's  
5 proposal, where we still would have separate, 17  
6 separate sets of schedules, we would have a uniform  
7 monthly minimum charge, but we could still have 17  
8 commodity rates that would have to be designed, we would  
9 still have 17 separate rate bases, 17 separate income  
10 statements, et cetera. Would the company at that point  
11 be required to always file on a company-wide basis, or  
12 could it still file in groups or some smaller unit?

13 MS. WOOD: Objection. I think that falls  
14 clearly under the scope of Ms. Jerich's testimony.

15 ACALJ NODES: Well, I am sure now he is going to  
16 say it is. He hasn't been shy about deferring things to  
17 Ms. Jerich, so...

18 MR. JAMES: Could I respond to that? The only  
19 reason I asked the question, this is the rate design  
20 witness. And I am asking -- I am trying to avoid policy  
21 questions. I am not trying to be unfair here. But this  
22 is the witness that is sponsoring RUCO's rate design,  
23 and he ought to know what the filing requirements would  
24 be under the proposal.

25 ACALJ NODES: All right. Well, if he can



1 answer, he will.

2 Go ahead, Mr. Moore, if you can answer.

3 THE WITNESS: Certainly if the \$15 base rate  
4 didn't have to be altered, then filing by groups, you  
5 would -- it would just be an adjustment to the commodity  
6 charge. But if the revenue requirement increased  
7 dramatically, then there would have to be an adjustment  
8 to the base rate, and, therefore, it would require a  
9 company-wide application.

10 BY MR. JAMES:

11 Q. The increase would have to be virtually de  
12 minimus, otherwise the base rate would have to be  
13 readjusted on a company-wide basis, correct?

14 A. If the base rate became --

15 Q. Monthly minimum, excuse me, keep that clear.

16 A. If the monthly minimum became an insignificant  
17 portion of the revenue generated, you know, which would  
18 not be acceptable, if it was in the range of, say, 30 to  
19 45 percent or something, you could see maintaining it.  
20 But in all likelihood a company-wide application would  
21 probably be more acceptable.

22 MR. JAMES: Okay. That's all I have, Your  
23 Honor.

24 ACALJ NODES: Okay. Ms. Vohra.

25 MS. VOHRA: Thank you, Your Honor.

1 CROSS-EXAMINATION

2 BY MS. VOHRA:

3 Q. Hello, Mr. Moore.

4 A. Hi.

5 Q. Are you familiar with Arizona Water's last  
6 western system rate case?

7 A. Generally.

8 Q. Okay. Do you recall whether RUCO recommended  
9 tiered rates for all classes in that case?

10 A. No, I do not know.

11 Q. Okay. I don't know if you have Exhibit S-6 up  
12 there.

13 A. Yes, I do.

14 Q. Okay. I am sorry. I think I gave you the wrong  
15 exhibit number. Let me just ask you, is S-6, as you  
16 have up there, is that Decision 68302?

17 A. Yes, it is.

18 Q. Okay, then that's the right one. I am sorry  
19 about that.

20 If I could have you, I believe it is page 40, if  
21 I am not mistaken, if I could have you turn to that  
22 page.

23 A. I am there.

24 Q. Okay. And does that decision state RUCO's  
25 recommendation regarding tiered rate design?

1 A. Just a minute, please.

2 Q. I believe it is line 24.

3 A. Okay. Line 24 states RUCO, Casa Grande, and  
4 all -- and Staff all oppose Arizona Water's proposed  
5 single tier rate design.

6 Q. Okay. Thank you.

7 MR. JAMES: Could I interrupt? I am very sorry.  
8 I am just noticing my copy of this exhibit has some  
9 blank pages in it. And I just didn't want to -- I just  
10 didn't want to have the record copy similarly have blank  
11 pages in it.

12 THE WITNESS: So is this one.

13 ACALJ NODES: We will need to check that. Mine  
14 has similar issues. So I think we are okay as long as  
15 the official docket copy is correct. So if you could  
16 just check that substitute, that would be correct.

17 MS. VOHRA: Your Honor, I believe that is the  
18 docket copy with the blank pages in. I do believe that  
19 the pages are consecutive. I am not sure why those  
20 blank pages are in there, but that's the way it shows on  
21 E-Docket.

22 THE WITNESS: 43 is blank.

23 MR. JAMES: I am also missing 41, Your Honor.

24 ACALJ NODES: Let's check, because I would find  
25 it unlikely that -- well, let's just check it.

1 MS. VOHRA: I will do that, Your Honor. Thank  
2 you.

3 ACALJ NODES: And it is also in the -- there are  
4 a bunch of blank pages in the schedules attached as  
5 well, the exhibits.

6 MS. VOHRA: Okay.

7 ACALJ NODES: Just check on it and make sure we  
8 have the correct copy substituted.

9 MR. SHAPIRO: I seem to have one that doesn't  
10 have blank pages: If you would like this one back, you  
11 are welcome to it.

12 BY MS. VOHRA:

13 Q. So is it safe to say that in Exhibit S-6,  
14 Decision 68302, RUCO was recommending tiered rates?

15 A. The decision stands for itself, I guess.

16 Q. Okay. And in this case RUCO is not recommending  
17 tiered rates for industrial class customers in the Casa  
18 Grande system, correct?

19 A. Correct.

20 Q. Can you explain why RUCO is not recommending  
21 tiered rates for industrial class in the Casa Grande  
22 system in this case?

23 A. Basically it is based on the two major  
24 industrial customers, Frito-Lay and Abbott, Abbott Labs.  
25 Anyway, they have their -- from their testimony, there

1 is a very proactive conservation program within the  
2 company. And also the usage is so high, an effective  
3 set of tiers, I just don't know where you would set them  
4 to have any effect.

5 Q. And there are other industrial users aside from  
6 Frito-Lay and Abbott Labs, correct, in the Casa Grande  
7 system?

8 A. There may be. The H-5 schedules say there are  
9 only two.

10 Q. Okay. Is it possible that there is other  
11 industrial class users with a different size meter,  
12 aside from Frito-Lay and Abbott Labs?

13 A. Oh, there could be, yes.

14 Q. Okay. What would RUCO's position be about a  
15 separate rate design just for the two large industrial  
16 class customers in Casa Grande, Abbott and Frito-Lay,  
17 because their usage is so much different?

18 A. If the residential customers were held harmless,  
19 I don't think RUCO would have any opposition to a  
20 special contract or tariff for those two companies.

21 Q. So would that resolve the issue of the entire  
22 industrial class having a single tiered rate?

23 A. I did not do an analysis on the industrial  
24 customers.

25 Q. Is it possible that that could resolve the

1 tiered rate versus single tiered rate issue regarding  
2 industrial class users?

3 A. Again, I would have to study the usage patterns  
4 of the different industrial customers.

5 Q. Okay. There has been a lot of talk in this case  
6 regarding cost of service in regards to consolidation.  
7 Is it possible to entirely avoid subsidization in full  
8 consolidation?

9 A. You cannot -- I don't believe you can avoid  
10 subsidization when you consolidate.

11 ACALJ NODES: When you say subsidization, you  
12 are actually referring to the rate impact, the disparate  
13 rate impact that is likely to be experienced between  
14 various system customers on various systems, not  
15 necessarily a subsidization, correct? I mean, aren't  
16 those two different concepts?

17 THE WITNESS: If you established a universal  
18 basic service charge and universal commodity charge to  
19 hit the recommended revenue for the company --

20 ACALJ NODES: Okay.

21 THE WITNESS: -- then you would have to, each  
22 system would generate a certain amount of money and it  
23 would be put in a big pot, and some would be paying  
24 their cost of service and others would not, or they  
25 would be paying more and others would be paying less.

1 ACALJ NODES: Okay. Well, when you -- then  
2 there is a subsidization that occurs virtually between  
3 every single customer on the service to some extent,  
4 right? I mean some customers are going to be subsidized  
5 and some are going to be subsidizing virtually on a  
6 customer-by-customer basis. But you can't create an  
7 individual rate for every customer, can you, it is just  
8 not practical?

9 THE WITNESS: Correct.

10 ACALJ NODES: And that occurs whether you have  
11 consolidated rates or not, correct? I mean there is  
12 that same subsidization going on right now between  
13 individual customers within each system, isn't there?

14 THE WITNESS: Correct. But it would be  
15 magnified if you took it on a company-wide basis. You  
16 would have -- I think in Director Jerich's testimony, it  
17 shows the broad band of adjustments in the rates from no  
18 subsidization to full subsidization, the increases.  
19 There is a large discrepancy.

20 ACALJ NODES: Well, subsidization only, it is  
21 kind of an arbitrary concept, isn't it? I mean you can  
22 carve out any number of discrete systems or sections and  
23 argue that there is a subsidization between any given  
24 system versus another, can't you?

25 THE WITNESS: Correct. And normally, we do like

1 a system-by-system rate design based on, you know, cost  
2 of service study and the revenue requirement and --

3 ACALJ NODES: Right. I used to have this  
4 argument with Ms. Diaz Cortez quite frequently, I  
5 believe. I guess now you have stepped into those shoes.

6 Okay. Go ahead, Ms. Vohra. I didn't mean to  
7 sideline.

8 MS. VOHRA: Thank you. And I suppose I could  
9 have been more specific with my questions. So I will  
10 try to ask it better this time around.

11 BY MS. VOHRA:

12 Q. Is it possible to avoid cross system  
13 subsidization in full consolidation?

14 A. From a company point of view, like it is revenue  
15 neutral; from system to system, there would be cross  
16 subsidization.

17 Q. Okay. And in the case of partial consolidation,  
18 where only mentally -- excuse me, it has been a long  
19 time -- where only the minimum monthly charge is  
20 consolidated, can you avoid cross system subsidization  
21 entirely in that instance?

22 A. Any time you try and combine two unique systems,  
23 there will be a subsidization occur compared to the  
24 stand-alone design.

25 Q. I believe Mr. James was asking you just now



1 about the inverted tier rate design and promoting water  
2 conservation, correct?

3 A. Yes.

4 Q. Would an inverted tier rate design likewise  
5 promote water use reduction among industrial class  
6 customers?

7 A. Again, it is a -- it is quite a science to  
8 develop tiers that would encourage conservation. The  
9 setting of those tiers would be very complicated in this  
10 present situation with those big industrial customers in  
11 Casa Grande using so much water. It would be hard to  
12 determine where you could create a tier where they would  
13 have discretionary ability to reduce their costs.

14 Q. But if there was a separate class that would  
15 sort of take Frito-Lay and Abbott Labs, the two largest  
16 industrial users, out of the equation and only the  
17 remaining industrial class users would be left in our  
18 discussion, is it possible that an inverted tier rate  
19 design could promote conservation among those users?

20 A. Again, it would require quite a bit of study.  
21 If you are going from a two-inch to an eight-, ten-inch  
22 meter, and with huge differences in water usage, it may  
23 be quite difficult. You know, it would require a lot of  
24 study.

25 Q. And that was not something that RUCO looked at?

1 A. Absolutely not, no.

2 Q. Okay. Do you recall earlier when Mr. James was  
3 asking you about how much revenue is built into the  
4 monthly minimum as opposed to the commodity rate?

5 A. Yes.

6 Q. Would you agree that when rates are designed in  
7 such a way that more money is recovered from the monthly  
8 minimum charge than the commodity rates, that that has a  
9 similar effect to what a decoupling mechanism would  
10 have?

11 A. Yes. If 100 percent was in the base rate, they  
12 would receive all their revenue whether the customers  
13 use any water or not.

14 Q. And in a less extreme example where not 100  
15 percent is in the base rate, would it also have the same  
16 effect, a similar, excuse me, a similar proportional  
17 effect?

18 A. Yes.

19 Q. And do you have Exhibit S-1 --

20 A. Yes.

21 Q. -- up there? Okay. If I could have you turn to  
22 page 8. And I will wait until everyone is ready.

23 MR. JAMES: I am sorry, what page?

24 MS. VOHRA: 8.

25 BY MS. VOHRA:

1 Q. I am going to ask you to read a passage for me  
2 beginning at line 26, paragraph No. 28. If you could,  
3 read from the beginning of the first sentence until the  
4 next page ending in company's overearning on the first  
5 line, if that makes sense.

6 A. Okay. I will start. On pages 28 and 29,  
7 Staff's proposal to institute three tiered rates is  
8 discussed. Tiered rates are the Commission's only  
9 direct means of encouraging conservation. Both the  
10 industry and RUCO oppose Staff's proposal. The industry  
11 claimed that it is sure to result in companies  
12 underearning, while RUCO claimed the policy is sure to  
13 result in companies overearning.

14 Staff believes that, as with any rate design,  
15 there is a possibility of either over or underearning.  
16 However, with rates designed as proposed by Staff in the  
17 task force report, there is almost no chance of  
18 underearning while there is a good possibility of  
19 overearning.

20 If properly designed, though, the tiered rates  
21 would result in the nonconserving customers paying extra  
22 for large uses of water, and reward those customers that  
23 used very little water. If customers conserve such that  
24 all were falling within the middle tier, the company  
25 should earn its allowed rate of return. If the

1 customers continue to use water in the third tier, the  
2 company -- the water company would probably overearn.

3 Q. And that's, that's fine. If you would --

4 A. That's good?

5 Q. I won't make you read anymore.

6 A. I was on a run.

7 Q. And one last question. I just wanted to make  
8 sure that it was correct that you testified earlier that  
9 tiered rates can have the effect of sending a price  
10 signal that encourages water conservation?

11 A. Yes, properly designed, that's one of their  
12 benefits.

13 MS. VOHRA: Thank you, Mr. Moore. That is all  
14 the cross-examination I have.

15 ACALJ NODES: Mr. James, before we do redirect,  
16 do you have any more questions?

17 MR. JAMES: Thank you. I do, actually, a couple  
18 follow-up questions concerning Exhibit S-1.

19

20 FURTHER CROSS-EXAMINATION

21 BY MR. JAMES:

22 Q. And I am not going to make you read anything  
23 else out of Exhibit S-1, but I did find what you read to  
24 be very confusing. Do you think that the rate design  
25 that has been proposed by RUCO and the Staff is going to

1 create a good possibility of Arizona Water Company  
2 overearning?

3 In other words, they would have to encourage  
4 customers to use more water than was used on average  
5 during the test year. Do you think that's going to  
6 occur?

7 A. No.

8 MR. JAMES: Okay. That's what I thought.

9 That's all I have, Your Honor.

10 ACALJ NODES: Redirect.

11 MS. WOOD: Thank you, Your Honor.

12

13 REDIRECT EXAMINATION

14 BY MS. WOOD:

15 Q. When you were talking to Mr. James about the  
16 conservation adjustment, he asked you about it resulting  
17 in possible revenue decreases. It is possible there  
18 would be no revenue decreases, isn't it?

19 A. Yes.

20 Q. And if the company did experience a reduction in  
21 revenues that affected their ability to earn their  
22 approved rate of return or their approved return, they  
23 could file another rate case, correct?

24 A. Correct.

25 Q. Now, isn't it true that there is very little

1 seasonality among Arizona Water's 17 operating systems?

2 A. I believe that Rimrock and Pinewood are the  
3 exception.

4 Q. Okay. With the exception of Pinewood and  
5 Rimrock, then wouldn't that mean that there would be  
6 very little variance in the level of water sales over  
7 the course of a year as a result of people moving in and  
8 out of the company's service territories?

9 A. Correct.

10 Q. And that being the case, except for Pinewood and  
11 Rimrock, there is not a large problem with collecting  
12 more revenue through a commodity charge as opposed to a  
13 monthly minimum charge, is there?

14 A. Correct. Seasonality is one of the concerns  
15 when you determine the percentage of water to be or the  
16 percentage of revenue to be determined from the basic  
17 rates. But overall I believe the company has a static  
18 customer base, usage base.

19 Q. Mr. Moore, you have worked with the customer  
20 service division at the Corporation Commission during  
21 the course of your career, correct?

22 A. Yes.

23 Q. And you are very familiar with the systems here  
24 in Arizona, many of them?

25 A. Correct.

1 Q. Is the level of seasonality of Pinewood and  
2 Rimrock as large as it would be with other systems?

3 A. Excuse me, is it similar to others?

4 Q. It is not as large as it would be with some  
5 other systems in Arizona, is it? And you can clarify.  
6 I am --

7 ACALJ NODES: Do you mean other water company  
8 systems?

9 MS. WOOD: Yes, sir.

10 ACALJ NODES: Okay.

11 BY MS. WOOD:

12 Q. Sorry, that might help you clarify the answer.

13 A. There are certainly systems like down in Yuma  
14 where there is extreme variation in the water  
15 consumption between summer and winter, yes. As effect  
16 on the company, I don't believe the seasonality in  
17 Pinewood and Rimrock is as significant as it is to other  
18 companies.

19 MS. WOOD: Thank you.

20 ACALJ NODES: If --

21 MR. JAMES: I am sorry. I know it is late. I  
22 just need to follow up.

23

24

25

1 FURTHER CROSS-EXAMINATION

2 BY MR. JAMES:

3 Q. I apologize, Mr. Moore, but do you know where  
4 Lakeside is? It is in the White Mountains, isn't it?  
5 It snows there, is that right? Am I right?

6 A. Subject to check.

7 Q. Well, in Overgaard, Overgaard is next to Heber.  
8 The elevation there is about 7500 feet, right?

9 A. Correct.

10 Q. It snows in Sedona. The elevation in Sedona is  
11 not as cold as Overgaard or Lakeside, but the elevation  
12 in Sedona is 5,000 feet, correct, close to that?

13 MS. WOOD: Your Honor, I object. Our question  
14 about seasonality was talking about the in and outflow  
15 of customers, not the weather. I don't know if I am  
16 mincing terms here or not.

17 MR. JAMES: I apologize, Your Honor. I was  
18 talking about usage fluctuating based on weather. And  
19 if that's the case, if we are in agreement with RUCO on  
20 that, I will stop.

21 ACALJ NODES: Well, I am not sure you are.  
22 Because I think she -- the underlying premise is that as  
23 customers fluctuates, so does usage. I think they go  
24 hand in hand.

25 MR. JAMES: No. What I was going at, as usage



1 levels drop considerably in the winter because you have  
2 snow on the ground, you are not going to do outside  
3 watering the ground, for example.

4 ACALJ NODES: Right. But wouldn't there still  
5 be a great deal of seasonality likely in any of the  
6 higher elevation systems?

7 MR. JAMES: That's true. I mean there is a --  
8 it is a combination of both, I think, Judge Nodes. It  
9 is a combination of people that have second homes and  
10 may not be --

11 ACALJ NODES: Well, that was going to be my  
12 question to Mr. Moore based on the questions. And I  
13 mean, I don't know that we have any clear evidence.

14 And maybe you know, Mr. Moore, but I would  
15 suspect that most of them, if not all the northern  
16 systems, the northern group systems would have some  
17 degree of seasonality in their customer base, wouldn't  
18 they?

19 THE WITNESS: Yes. But the only caveat I would  
20 have is Sedona is a pretty well established community.  
21 But the other ones, but their overall consumption levels  
22 based on a company-wide basis is not as dramatic.

23 ACALJ NODES: Right. Sedona is going to be a  
24 little less seasonal perhaps than some of the other  
25 systems you discussed with Mr. James and your attorney.

1 THE WITNESS: Correct.

2 ACALJ NODES: Okay.

3 MR. JAMES: And Your Honor, just to close that  
4 point out.

5 BY MR. JAMES:

6 Q. As we discussed earlier, Mr. Moore, the northern  
7 group systems are the systems that currently don't have  
8 inverted tier rates, correct?

9 A. Correct.

10 Q. And the northern group systems are Sedona,  
11 Rimrock, Pinewood, Overgaard, and Lakeside, correct?

12 A. Correct.

13 MR. JAMES: Okay. That's all I have, Your  
14 Honor.

15 ACALJ NODES: All right. Ms. Wood, anything  
16 further?

17 MS. WOOD: No, Your Honor.

18 ACALJ NODES: Okay. Ms. Vohra, anything?

19 MS. VOHRA: No, Your Honor. Thank you.

20 ACALJ NODES: All right. Mr. Moore, thank you  
21 for your testimony. And you are out of here before  
22 5:00. You are excused.

23 THE WITNESS: Thank you.

24 ACALJ NODES: All right. Tomorrow we are going  
25 to start with Mr. Coley, followed by Mr. Rigsby on

1 revenue requirement.

2 MS. WOOD: Yes, Your Honor.

3 ACALJ NODES: Okay. Now, you know, I would like  
4 to be able to break a little early tomorrow. I had  
5 forgotten it was a holiday weekend. But what is Staff's  
6 availability, depending on when we finish with Mr. Coley  
7 and Mr. Rigsby?

8 MR. VAN CLEVE: Your Honor, the order that Staff  
9 was contemplating at this point -- and I discussed this  
10 earlier with Mr. Shapiro -- I think is going to be  
11 Mr. Olea, Mr. Abinah, followed by Ms. Stukov.

12 ACALJ NODES: Okay. So those would be next up.

13 MR. VAN CLEVE: Yes.

14 ACALJ NODES: Or first up for Staff. Okay. And  
15 I understand you said Mr. Igwe, it looks like, is going  
16 to be the following week, not until Wednesday or  
17 Thursday is he available?

18 MR. VAN CLEVE: He is apparently available next  
19 week with the exception of the holiday.

20 ACALJ NODES: Oh, okay. Okay. I thought  
21 earlier --

22 MR. VAN CLEVE: His plans changed for some  
23 reason.

24 ACALJ NODES: Okay, all right. But in any  
25 event, we are going to do Coley, Rigsby, and depending

1 on time, Olea, Abinah, Stukov.

2 I guess I should ask you, Mr. James, I don't  
3 know how many of these are yours and how many are  
4 Mr. Shapiro's. But realistically how much cross is  
5 likely, at least for Mr. Coley and Rigsby?

6 MR. JAMES: Those both happen to be  
7 Mr. Shapiro's witnesses. However, I think probably you  
8 are looking at maybe an hour.

9 ACALJ NODES: Hour each?

10 MR. JAMES: Yes.

11 ACALJ NODES: Okay.

12 MR. JAMES: Maybe, I am trying to be  
13 conservative, hopefully it is a little less than that.

14 ACALJ NODES: And then Mr. Olea, if he gets on  
15 the stand.

16 MR. JAMES: The next two witnesses are my  
17 witnesses. The cross of those witnesses will be pretty  
18 short, maybe 15 or 20 minutes.

19 ACALJ NODES: Okay. Well, then let's  
20 tentatively plan on those five, subject to time, and we  
21 will just see how it goes. We may not get all those  
22 witnesses, but we will just see how things are going and  
23 plan accordingly.

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1           Okay. We will resume at 9:30 tomorrow. See you  
2 then.

3           (The hearing recessed at 5:00 p.m.)  
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1 STATE OF ARIZONA )  
2 ) ss.  
3 COUNTY OF MARICOPA )  
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